Austria	Sch24	Iran	Ri270	Pakistan	Rs35
Bahrain	Din0.700	Israel	Shk3.60	Philippines	Pso40
Belgium	BFr55	Italy	L2000	Poland	Zl 9,000
Cyprus	C£0.90	Jordan	JD1	Portugal	Es165
Denmark	DKr12.00	Korea	Won 2000	Qatar	QR8.50
Egypt	£E3.25	Kuwait	Fils.600	S.Arabia	SR7.00
Finland	Fmk8.50	Lebanon	L£600.00	Singapore	S$4.10
France	FFr7.50	Lux	LFr55	Spain	Pta165
Germany	DM2.60	Malaysia	M$4.25	Sweden	SKr12
Greece	Dr180	Morocco	MDh8.00	Switz	SFr2.50
Hungary	Ft107	Neth	Fl 3.25	Thailand	[illegible]
Iceland	IKr160	Nigeria	Naira12	Tunisia	Din0.800
India	Rs35	Norway	NKr12.00	Turkey	L3000
Indonesia	Rp3400	Oman	OR1	UAE	Dh7.00

EUROPE'S BUSINESS NEWSPAPER

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FRANCE

Rethink in prospect on immigration curbs

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World News

Baker to visit Saudi Arabia to boost drive against Iraq

James Baker, US Secretary of State, is to visit Saudi Arabia this week as part of a renewed US attempt to bolster the coalition against Iraq.

The announcement follows concern within the Bush administration about signs of drift in the diplomatic drive against Baghdad and uncertainty produced by the shuttle diplomacy of Yevgeny Primakov, the Soviet special envoy, who unexpectedly met Saddam Hussein, the Iraqi president, in Baghdad again late last night after talks earlier in the day. Page 22

NZ Conservatives win

Jim Bolger, New Zealand's Conservative prime minister-elect, promised a return to "common sense policies" after a landslide general election victory ended six years of economic and social reform by the outgoing Labour Party. Page 22

Hungary fuel protest

Hungarian government and taxi and truck drivers protesting against a drastic petrol price rise drew back from a clash which has paralysed Hungary since Thursday after the government indicated a willingness to compromise on the average 65 per cent rise in fuel prices. Page 22

Troops to Moldavia

Soviet Interior Ministry troops were sent to Moldavia (Moldova) to prevent bloodshed between ethnic Romanians and a Turkic minority seeking its own state. Page 2

Soviets' Interpol role

Soviet membership of Interpol played a crucial rule in arrests at the centre of a multi-million D-Mark scandal surrounding the former east German communist party (PDS). Page 2

Israel accepts report

Israel's cabinet endorsed a report saying police were justified in opening fire at Arabs on Jerusalem's Temple Mount but ministers acknowledged it was unlikely to deflect international criticism. Page 3

Ivory Coast votes

Voters in the Ivory Coast went to the polls amid widespread allegations of electoral malpractice in the first multi-party presidential elections since independence in 1960. Page 3

Bhutto loses again

Political rout of Benazir Bhutto's Pakistan People's Party (PPP) was almost complete after local elections in the country's four provinces. Page 8

Mandela in Diet

Nelson Mandela, deputy leader of the African National Congress, will tomorrow be the first black man ever to address the Japanese Diet, the highlight of a six-day visit. Page 6

Bush support drops

US President George Bush is rapidly losing public support for his handling of the Gulf crisis, with 61 per cent approving now against 77 per cent in early August, according to the Gallup organisation.

Trabant's time is up

The smoke-belching, two-stroke Trabant car, stinking symbol of the industrial backwardness of the extinct East Germany, will no longer be permitted to pollute a united Germany. Environment Minister Klaus Toepfer said the cars will have to pass emission tests from January.

Paley dies

William Paley, one of the most important influences on US broadcasting and the man who built the CBS network into a powerful communications empire, died at his Manhattan home, aged 89. Page 2

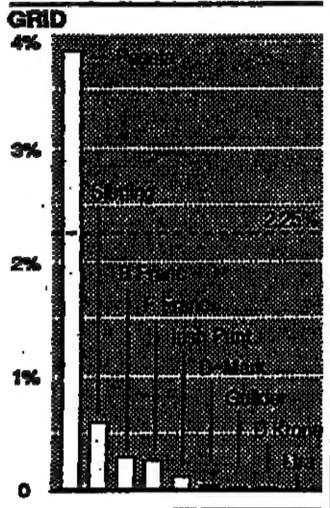
Business Summary

Lack of cash may halt US savings and loan rescue

THE US government's rescue of the savings and loan industry, may come to a halt soon because Congress adjourned without approving needed funds. Page 22

PAN AM's chairman, Mr Tom Plaskett, last night rejected an American Airlines offer to purchase its US-London routes for $500m. Page 23

EUROPEAN Monetary System: Sterling's third week as a full EMS member was the quietest so far. After entering on a wave of euphoria the pound fell steadily, but last week stabilised around its central rate of DM2.95. It finished 0.62 per cent above its central rate against the weakest placed Italian lira compared with 0.18 per cent at the end of the previous week. The Spanish peseta remained at the top of the system and the French franc was noteably firm, touching a three-year peak against the D-Mark.



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the EMS's narrow 2.25 per cent fluctuation band. In practice, currencies in the EMS narrow band cannot rise more than 2.25 per cent from the weakest currency in that part of the system. Sterling and the Spanish peseta operate with 6 per cent fluctuation bands. Currencies, Page 33

TREUHAND, east German trust body in charge of privatisation, says about 500 of the country's state-owned companies should be privatised by the end of this year. Page 2

ENIMONT, troubled Italian chemicals joint venture, has drawn one step closer to a showdown with the resignation of seven of its 12 board members. Page 23

IATA, International Air Transport Association, is warning that the Middle East crisis is speeding up the two-year-old trend in declining airline profitability. Page 6

NEC and Fujitsu, Japan's leading computer and telecommunications equipment makers, both had double-digit pre-tax profit increases. Page 23

AMSTRAD, UK electronics group, will stop manufacturing in Britain if the EC proceeds with a directive aimed at preventing software piracy, says the chairman, Mr Alan Sugar. Page 22

FT-SE Eurotrack 100

The FT-SE Eurotrack 100 stock market index, developed by the Financial Times and the International Stock Exchange, today begins full operation. Eurotrack offers the first real-time index of European shares, based on the prices of 100 leading stocks. The index is up-dated minute by minute from prices quoted on Seaq International, the exchange's international marketplace.

Kohl urges increased role for European parliament

By David Marsh in Bonn

CHANCELLOR Helmut Kohl of Germany is urging increased powers for the European parliament as a condition for further transfer of governmental decision-making to the European Community.

Mr Kohl's toughly-worded call for a greater role for the Strasbourg parliament in time for the next European elections in summer 1994, is made in a specially-written article for the Financial Times Survey on Germany, published today.

Mr Kohl articulates the growing reluctance of leading German politicians, especially at the regional level, to countenance further dilution of national powers and prerogatives unless the parliament is given more control over Community decision-making.

"Our democratic principles will allow the transfer to the Community of further rights of national parliaments and governments only if, as a counter-weight, distinct parliamentary controls are guaranteed at a European level."

Mr Kohl names "monetary stability, healthy public finances and an independent future European central banking system" as conditions for European monetary union (Emu). One of his advisers said that the Chancellor is setting down these principles partly to "test" the resolve of other Community partners to proceed towards Emu.

GERMANY SURVEY

A special FT survey, published as a separate section in today's paper, examines the unification that has fascinated the world, is a triumph for Chancellor Kohl, and is destined to reshape tomorrow's Europe.

Mr Kohl has now advanced January 1 1994 as the starting date for the so far undefined "Stage Two" of the move towards a common European currency and central bank.

This is a compromise between the wish of Mr Hans-Dietrich Genscher, the foreign minister, to start "Stage Two" on January 1 1993, and the desire of the Bundesbank to avoid any concrete dates.

In spite of a growing belief abroad that the chancellor is softening Germany's commitment to EMU, the adviser said: "Those people who say this is all just rhetoric will be in for a surprise."

In his article, the chancellor says that the EC needs to be strengthened internally to aid co-operation and association with non-Community members, both in eastern Europe and in Scandinavia.

He claims, however, that rapid entry of more countries into the Community could be "fatal", saying that this would make the EC no more than "an elevated free trade zone."

Stressing his overriding aim of wider political union in Europe, Mr Kohl writes: "Those who want the political unification of Europe must restrict accession to the Community, for the foreseeable future, to those countries which are prepared and able to create the European Union without reservations."

EC moves towards fuller union without UK support

By David Buchan and John Wyles in Rome

THE European Community yesterday made unexpected progress towards political and monetary union, leaving Britain trailing more conspicuously than ever in its wake.

The UK's 11 Community partners for the first time committed themselves to a January 1 1994 starting date for the second phase of economic and monetary union (Emu), that would include the creation of a European central bank, to be followed within three years by a decision on the launch of a single European currency.

But in a strong criticism of the summit Mrs Margaret Thatcher, the British prime minister, accused EC leaders of living in "cloud cuckoo land" over fixing 1994 for the start of the second stage of Emu, without first having decided its substance. "That is putting the cart before the horse," she said in a BBC radio interview. She also suggested that the way business at the summit had been conducted was "not competent" and "a mess".

Confronting the international agenda at their first summit since the onset of the Gulf crisis, EC leaders sought to present a front both on the need for Iraqi withdrawal from Kuwait and against attempts by President Saddam Hussein to use the hostages to divide the international community.

Mrs Thatcher in Rome: summit was a "mess"

It was, however, the surprise achievement of the Italian presidency of the EC on the monetary union front which created the air of tangible satisfaction in all delegations except the British. Mr Jacques Delors, the European Commission president, said that summit had created "a negotiating brief" for December's inter-governmental conference (IGC) on monetary union. Senior Italian monetary officials went further in suggesting that the bulk of the IGC's most important tasks had been accomplished.

Mrs Thatcher refused to underwrite this approach, seeking on both the monetary and political union issues to leave all matters of substance for the two IGC's opening in Rome in December. It was premature, she said, to decide the timing of phase two of Emu before its contents had been formally negotiated in the December IGC.

The British reserve in the final summit communiqué made clear its wish to negotiate on the basis that its plan for a hard Ecu could evolve into a widely-used common currency, even if never, as Mrs Thatcher stressed, into a single money as long as she remained prime minister. "I would never put a plan for a single currency before the House of Commons," she declared.

Despite the vigour of Mrs Thatcher's public language, none of her partners appear to believe that she will break with the majority over monetary union. Mr Giulio Andreotti, the Italian prime minister and summit chairman, claimed that the British reserve "contains an appreciation of the platform of EMU" and that there was good reason for hoping that "solutions will be found" in the IGC.

Tempers were strained from the very beginning by Mrs Thatcher's characteristic attempt to force discussion and decision on the issue she judged the most urgent – the Community's continuing failure to match its major trading partners in tabling a farm support reduction proposal in the Gatt negotiations. Mr Andreotti vetoed her request and, due to continued Franco-German opposition, was yesterday unable to confirm a fresh attempt to break the EC's deadlock over Gatt would be made early this week.

Mrs Thatcher said "the Community is failing on urgent matters" while agreeing on vaguer issues "in the middle distance."

Britain's detachment from its partners became even more marked in the summit's conclusions on political union, which were peppered with formal reserves by the UK.

Editorial comment, Page 20

Summit ends in disarray over world trade talks

By David Buchan and John Wyles in Rome and Tim Dickson in Brussels

EUROPEAN Community leaders ended their summit in Rome yesterday in disarray over world trade negotiations.

They committed themselves, in their final communiqué, to "making a full contribution to a positive outcome" to the Uruguay Round of the General Agreement on Tariffs and Trade, which is scheduled to end in December.

But they left Rome still divided on what reductions in EC farm support to offer, and on when to make the offer.

A plan by the Italian presidency to convene tomorrow in one more attempt by EC trade and farm ministers to agree on an offer to reduce agricultural protection was opposed by Chancellor Helmut Kohl of Germany, backed by President François Mitterrand of France.

The German leader told EC leaders he needed more time to sell such concessions to his domestic electorate.

Mr Giulio Andreotti, the Italian Prime Minister, then held out the prospect that the next attempt to resolve the issue may be delayed until next week. "If to bring about a solution, three or four more days are necessary, we shall spare no effort".

Earlier, Mrs Margaret Thatcher, the British Prime Minister, and Mr Ruud Lubbers, Prime Minister of the Netherlands, had tried to force the issue. They said failure to deal with the most pressing issue on the agenda would signal that the EC put its internal agenda of political and monetary union above its international responsibilities.

The summit ended late after Mr Lubbers and Mrs Thatcher sought an instruction to the joint Council of EC Farm and Trade Ministers that they should take up on Tuesday the farm support issue where they had left it in the early hours of Saturday in Luxembourg.

Of the six EC meetings held so far this month to try to break the deadlock, that meeting on Friday night came the closest to reaching a deal.

By early Saturday most member states – including even Germany – seemed ready to agree a text which would have softened the impact of the Commission's basic proposal for a 30 per cent cut in subsidy.

France and Spain, however, indicated they still had fundamental reservations, at which point the German farm minister, Mr Ignaz Kiechle, said he could not allow the French to be isolated. Faced with the traditional Paris-Bonn axis, the Italian president decided it was pointless to push the matter to a vote.

The key sticking point for France was the Commission's refusal to provide additional guarantees that reforms accepted under the Uruguay Round would not ultimately lead to cheaper imports penetrating the EC market.

With the US and Cairns Group of agricultural exporting countries lead by Australia and New Zealand certain to reject even the original Brussels proposal as inadequate when it is finally tabled in Geneva, there was a deepening sense of futility about the negotiations on Friday.

Retreat from corporate lending raises fears of credit squeeze

By Stephen Fidler, Euromarkets Correspondent

THE SHARPEST retreat by international banks from corporate lending since the mid-1970s has heightened concerns in the banking community about the risks of a worldwide credit squeeze.

Bankers say a "sea change" in international bank sentiment, which has intensified following Iraq's invasion of Kuwait, has brought an abrupt end to a decade of plentiful, cheap credit for companies in the UK and elsewhere. Companies raising new loans from international banks have been forced to pay more, and an unusually high number of attempts to syndicate loans among banks has failed.

Banks have also become nervous about existing loans. This has contributed to the rapid collapse of highly-indebted companies such as Polly Peck International, ordered into the hands of administrators last week. Although the shift in sentiment has been brought to a head by the Gulf crisis, its roots are diverse:

- The pressure placed on banks by internationally agreed standards for bank capital taking effect in 1992. The standards force banks to hold more capital against their loans to companies than against other lending considered less risky. The low ratings of banks and the weakness of stock markets makes it impossible for banks to add to equity capital and they are therefore forced to restrict their lending.
- Japanese banks, responsible for half of all new international bank lending in the second half of the 1980s, have greatly reduced new lending. Their capital has been put under pressure by the collapse in the Tokyo stock market following the Iraqi invasion, because they are allowed to count a portion of their gains on their extensive equity holdings as capital.
- The main US banks have been forced to pull back from international lending. Saddled with bad third world loans and more recent ill-advised real estate and leveraged buy-out lending closer to home, nervousness continues about their financial health and they are shut out of the equity markets.
- Other international banks have reduced their cross-border lending. Arab banks have been seeking to preserve liquidity following the invasion of Kuwait, while German banks have had their attention diverted homewards by unification. Other banks have been bruised by their experience of international corporate lending.
- Recession in the US and UK which reduces the ability of companies to service their debts.
- A loosening of relationships between banks and companies during the 1980s as companies became more willing to choose their bankers on the basis of price, and a proliferation of international banks willing to make loans to foreign companies. Many of these banks are now looking to pull out from a marginal business.

CONTENTS

THE MONDAY INTERVIEW

When he looks back over the past 10 years, Lech Walesa (left) likes to say that he rarely put a foot wrong, a confidence born during his time of struggle. Now he faces a quite different test in the battle for Poland's presidency

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FT SURVEYS THIS WEEK

SEYCHELLES:
After 15 years of ambivalence, the Seychelles government is seeking overseas help to realise the country's potential. *See pages 13-16.*

TODAY:
Germany: Unification has transformed both Germany and Europe. But there has been more worry than rejoicing – *see separate section.*
Seychelles: *see panel left.*

TUESDAY:
Urban Development: Can the British government's strategy for inner city regeneration still work with property values falling?
Video Industry: Unnoticed and unheralded, the video industry has developed to be one of Britain's main leisure industries.

WEDNESDAY:
Architecture: Orders in the UK are falling, staff are being laid off, and prospects are bleak. Hope comes from the Pacific Basin and eastern Europe.

Lufthansa hits at BA as Berlin flights start

By Andrew Fisher in Berlin

MR HEINZ RUHNAU, chief executive of Lufthansa, the German national airline, yesterday charged British Airways with not being serious over its professed interest in Interflug, the former East German carrier.

Speaking before Lufthansa's first scheduled flight to Berlin for 45 years, he questioned BA's attitude concerning Interflug's future.

He expressed confidence that Lufthansa would succeed in its attempts to take over Interflug and a large portion of its 3,500 employees.

"If anyone can do it, we can," he said.

Lufthansa withdrew its application to the Federal Cartel Office to buy 26 per cent of Interflug this month and is now looking to the Bonn government (the main shareholder of both airlines after unification) to agree to a joint solution.

Mr Ruhnau said BA's interest in Interflug was "not serious." He added; "Playing around with people in this situation in Germany was not, I think, a fair and proper attitude."

Mr Jürgen Weber, Lufthansa's deputy chief executive, said he thought BA's interest was in staying in the German market.

"They are looking for means to do this," he said. "Interflug is one."

Interflug has an ageing fleet of Soviet aircraft and three modern Airbuses. Some 600 of its technical staff have already been taken on by Lufthansa at the east Berlin airport of Schönefeld.

The 8 a.m. Lufthansa flight from Cologne to Tegel airport in west Berlin was given a low-key champagne send-off, with a trumpet and barrel-organ duo playing such un-German tunes as "Yes, we have no bananas" and "Roll out the barrel."

After arriving on time in Berlin, it was met by the brass bands of west Berlin's customs officers.

Mr Ruhnau said Lufthansa was returning to the city where it had been founded in 1926.

Treuhand chief sees progress in privatisation

By David Goodhart in Bonn

ABOUT 500 of east Germany's 8,000 state-owned companies should be privatised by the end of this year and a further 1,500 by the end of next year, according to Mr Detlev Rohwedder, chief executive of the Treuhand, the trust body in charge of privatisation.

Greatest foreign interest is coming from France, said Mr Rohwedder. But he also pointed to growing Japanese interest and indicated that 50 applications had come from large US companies or banks.

Mr Knut Fischer, vice-president of the US-German Trade Association, struck a more cautious note last week, saying that US investors remained reluctant to invest in east Germany because of lack of clarity over property ownership and confusion in the new administrative structures.

Mr Rohwedder wants to speed up privatisation but insists the Treuhand oversee restructuring of the majority of companies which can be saved but which have no immediate buyer. The Treuhand envisages borrowing of up to DM100bn (£330m) over the next 18 months to pay for this restructuring.

Some members of his own executive and the Economics Ministry in Bonn have argued that the Treuhand should concentrate almost exclusively on privatisation and that private companies should look after the restructuring.

The Bonn Government is trying to make east German takeovers more attractive by agreeing to pay old debts and cover the cost of repairing environmental damage. Volkswagen, Daimler-Benz and BASF have all made takeovers in east Germany dependent on such cover.

● Chancellor Helmut Kohl came under increased pressure at the weekend to raise taxes after the December 2 general elections to meet the costs of German unification, writes **David Marsh**.

Mr Kurt Biedenkopf, the new Christian Democrat prime minister of the state of Saxony, has called for a special levy on higher wage earners to finance building up the east German economy.

Mr Biedenkopf, a long-standing rival of Mr Kohl within the governing party, suggested that this higher taxation could be introduced for those earning more than DM4,000 a month.

Both Mr Biedenkopf and Mr Lothar Späth, premier of Baden-Württemberg, said higher petrol taxes were also needed to provide money for the badly run down east German road network.

Kentucky loses stomach for politics

Lionel Barber finds the budget deal is giving voters a queasy feeling

ONE EVENING last week Mrs Lois Mathis picked up her pencil and wrote to President Bush. "Dear Mr Bush," the six-page letter began, "I am so disappointed with you and Congress that I want to puke."

This is not the kind of language one expects from a Southern Baptist, nor a registered Republican of 18 years standing. But Mrs Mathis had just seen a TV programme about 33 congressmen going on a Caribbean jaunt with tax lobbyists; and that got her thinking about the budget.

A spunky brunette who is married with two childen, Mrs Mathis earns $18,000 a year as an assembly line worker at Tecumseh Products, an air-conditioning manufacturer based in Ferguson, an old railroad town in southern Kentucky.

The people here are hard-working, patriotic and solid Republican. The streets are spotless; the white-fenced gardens are neatly trimmed; and yellow ribbons dangle from the trees in memory of the men and women in Saudi Arabia.

Last Friday, as the House and Senate edged towards a vote on the final $500bn, five-year deficit reduction package, the mood was more fearful than resentful. How would the deal affect living standards in a community already threatened by recession?

Some 700 people – half the workforce – have been laid off at the Ferguson plant since the start of the year; in the coal mining towns to the east, several hundred more workers have lost their jobs in the past fortnight.

"We've been in a recession for the past six months," says Mr Steve Vinson, Tecumseh's general manager.

Mrs Mathis's husband is a welder who earns around $13,000 a year. Together they worry about the new 5 cents a gallon petrol tax. "We've got a '79 T-bird and a '73 pick-up," she says, "this gas tax is ridiculous. I can't even get 40 hours work here to pay my bills. None of the Republicans is for working people."

US MID-TERM ELECTIONS

Mr James Harper, 58, who spent 20 years in the US army before retiring in 1968, agrees: "It's a lousy deal. They're taxing the working man, and the rich are getting off scot-free."

Mr Vinson, 40, who earns around $60,000 a year, supports the "fairness" argument put forward by the Democratic Party. The issue is not whether to raise taxes to cut the deficit, but who should pay those new taxes. "If you're making a million," he says, "how much complaining can you do?"

But as Mr Vinson points out, with a shrug of his burly shoulders, the middle class will always bear the brunt because they are the majority of the working population in the US: "You're not going to raise the money by just taxing millionaires."

Thus, Mr Vinson is still leaning toward voting for Senator Mitch McConnell, the Republican running for re-election; elsewhere, party ties going back decades seem unlikely to turn into defections to the Democrats. More likely, some simply will not vote.

Further south, near Cumberland Gap, where Daniel Boone laid his trail from the Appalachians more than 300 years ago, a similar mood of resignation prevails. This is one of the poorest counties in the US; the unemployment rate is usually near 20 per cent; and the population is almost exclusively white.

Mr Dwayne King is co-owner of a short-line railroad which once trucked coal and now carries tourists through some of the most picturesque scenery in the South. He offers a different perspective on the budget mess.

Three weeks ago, when the federal government shut down temporarily because of Congress's inability to pass a budget, Mr King was one of the hardest hit. His private railroad runs through land now owned by the National Park Service. "It cost us a weekend's earnings and the public blamed us," says Mr King.

There is a further irony. More than 15 years ago, Congress, recognising the decline of the coal industry, approved a $100m project to preserve the area as parkland and "living history."

Because of the budget squeeze, barely 30 per cent of the work is complete; private capital remains shy because the tourist numbers are not quite high enough.

Mr King ought to be angry; instead, he remains stoic – aware, perhaps, of his dependence on Congress for future funding. Speaking of Mr Hal Rogers, the local Republican Congressman who sits on the House appropriations committee, Mr King says: "You can't put into words how much he matters."

Like other Kentuckians, Mr King will grouse about the quality of some in Congress; and about the constant electioneering and the money involved. (The last governor's race cost $15m, an absurd amount for a state with only 3.7m people).

But nobody – not even Mrs Mathis – is talking about marching on Washington. Mr King speaks for many when he says: "Don't be negative about something unless you have got something better."

Soviet troops sent to Moldavia

By Leyla Boulton in Moscow

SOVIET Interior Ministry troops were sent to Moldavia (Moldova) yesterday to prevent bloodshed between ethnic Romanians and a Turkic minority that wants its own state.

In Bucharest, Romanian demonstrators proclaimed solidarity with ethnic Romanians in the Soviet Union, which annexed Moldavian territory in 1939.

Up to 50,000 "peace-keeping volunteers" from the Moldovan Popular Front, some carrying clubs and knives, have surrounded southern districts inhabited by Christian Turks, known as Gagauz, who want to be independent from Moldavia but not from Moscow.

The parliament of Moldavia, which wants independence from Moscow, declared a state of emergency on Friday in districts inhabited by the 150,000 Gagauz when they tried to hold their own elections.

Georgia, another independence-minded republic, went to the polls yesterday for its first multi-party parliament in 70 years of Soviet rule.

An opposition politician who urged voters to boycott the poll was shot in the shoulder on Friday after gunmen strafed the apartment of another pro-independence politician.

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Soviet role in German arrests

SOVIET membership of Interpol played a crucial rule in arrests at the centre of a multi-million D-Mark scandal surrounding the former east German communist party (PDS), it has emerged, writes David Marsh. German police on Friday detained Mr Wolfgang Pohl, PDS treasurer, and his assistant, Mr Wolfgang Langnitschke. Mr Gregor Gysi, the PDS chairman, offered to resign over the scandal, but was persuaded to stay on.

Mr Erich Patzold, the Berlin senator in charge of the investigation, said Soviet officials had given great co-operation to Berlin police officers despatched last week to Moscow.

Paley: trend-spotter

OBITUARY

William Paley: giant of US broadcasting

MR WILLIAM PALEY, one of the most important influences on the shape of US broadcasting and the man who built the CBS network into a powerful communications empire, died on Friday night aged 89.

Spotting the potential of the then infant broadcasting industry, he transformed the Columbia Broadcasting System from a collection of loss-making radio stations in the late 1920s into the dominant force in US radio and television broadcasting in the 1940s, 50s and 60s.

He had a remarkable eye for both talent and trends in popular culture and was closely involved in programming decisions. Early on he signed up a wealth of relatively unknown performers, such as Bing Crosby, and through the "Paley Raids" in the 1940s delivered crushing blows to rival NBC, paying large sums to lure away top performers like the comedians Jack Benny and Red Skelton.

For years CBS dominated the television ratings, with hit shows such as "I Love Lucy," "Gunsmoke" and the Ed Sullivan variety show.

It also set the standard for US broadcast journalism, thanks to the hiring of Ed Murrow, whose wartime reports became the established voice of broadcast news. Mr Murrow, a close friend of Mr Paley until the two fell out in the late 1950s, headed the CBS news operation.

He was born in Chicago of Ukrainian Jewish parents who had become multi-millionaires through cigar manufacturing. But he quit the the family business for the excitement of the new medium. During the CBS heyday he and his second wife, Babe, occupied the pinnacle of fashionable New York society.

A man whose rule could be tyrannical, Mr Paley fell out with a succession of top managers and these clashes, which became more frequent in the 1970s, contributed to the network's relative decline. So too did Mr Paley's withdrawal from day-to-day involvement in the business and wider industry trends.

In the mid-1980s Mr Lawrence Tisch, head of Loews, the hotels-to-insurance group, became CBS's major shareholder and chief executive. Mr Paley was chairman, but his health was deteriorating and it was Mr Tisch who set a new and less ambitious course, selling both the CBS records and publishing divisions.

Martin Dickson

Local assembly polls round off Bhutto defeat

By Roger Matthews in Islamabad

THE POLITICAL rout of Ms Benazir Bhutto's Pakistan People's Party (PPP) was almost complete yesterday, following polling for local assemblies in the country's four provinces.

In a repeat of last Wednesday's general election result, the Islamic Democratic Alliance (IDA) scored an overwhelming victory in Punjab, winning well over 200 of the 240 seats at stake, while the PPP appeared to have lost control of Sind, Ms Bhutto's home province, robbing her of a power base from which eventually to launch a comeback.

In contrast to the general election, voting for the provincial assemblies was marred by violence, with 23 people reported dead in clashes between rival supporters and another 67 injured, some seriously.

Ms Bhutto's aides claimed last night they now had a better understanding of how the general election results had been "rigged" and pledged that the struggle to expose alleged irregularities would be relentless. "If they are allowed to get away with it this time, there will never again be a fair election in Pakistan," one said.

Ms Bhutto, dismissed as prime minister by President Ghulam Ishaq Khan in early August, has called a meeting of PPP members of parliament, unsuccessful candidates and political allies for November 3, to decide how best to challenge the election results.

Many political analysts remain astonished by the size of the IDA victory and particularly by the sharp increase in voter turn-out in individual constituencies. This appeared to run counter both to anecdotal evidence and to the popular enthusiasm generated among voters by Ms Bhutto during her final rallies. International observers said they had not seen evidence of widespread or organised voting irregularities.

Leaders of the IDA, backed by the military and other key elements of the establishment, were jubilant yesterday at their continuing electoral success. They said the country was more united now than at any time since independence and there was no longer any doubt about who had the moral and legal right to govern Pakistan.

Temple-site tinder box for Indian conflagration

A symbol of peace could convulse a tradition of religions living side by side, David Housego writes

AYODHYA in Indian legend is the symbol of peace and prosperity, a northern Indian capital also the birthplace of Lord Ram, the Hindu god. Today, Ayodhya is identified with militant Hindu nationalism and the prospect of a confrontation between Hindus and Moslems that threatens to convulse India's secular tradition of the two communities living side by side.

Ayodhya is reached by driving north from Lucknow through mango orchards and fields which, at this time of year, are white with opium poppies, cultivated under government licence. Ayodhya is a small town that lives off Hindu pilgrims visiting the 4,000 temples built in homage to Ram.

At the weekend, all roads to the town were blocked by armed security forces to prevent sadhus (saints) and Hindu militants arriving for ceremonies marking tomorrow's start of the construction of a new temple. The date and time of the ceremonies has been chosen to coincide with a pilgrimage to Ayodhya. Hindu divines have pronounced the date auspicious.

The temple, as the accompanying ground plan released last week by militant Hindu organisations shows, would be built on a site claimed by Moslems and would incorporate an existing mosque. Ayodhya has become the tinder box of Hindu-Moslem relations, in a country where Moslems are a 140m minority. With steel barriers and heavily armed troops, the site has been transformed into a fortress. Many thousands of Hindu militants have been arrested in the attempt to reach Ayodhya for tomorrow's ceremonies. They include Mr L.K. Advani, leader of the radical Hindu BJP party, whose detention precipitated the party withdrawing its support in parliament from Prime Minister V.P. Singh.

Many more senior party leaders are expected to court arrest by tomorrow, thus seeking political martyrdom and preparing for a nationwide electoral campaign on the themes of Hindu revivalism. Ten years ago, the fundamentalists had only a small following. In last year's general election, the BJP increased its strength in parliament from 2 to 88. They hope that by focusing this year's expected election on the Ayodhya issue, they will increase their share of the vote – even if they lose seats because of the quirks of the electoral system – and thus stake their claim to one day taking over government.

Climbing the narrow streets of Ayodhya to what Moslems call the Babri Masjid (the mosque of Babar), it is immediately apparent how emotive and tense an issue this is. The three-domed mosque lies at the top of the hill. You pass through heavy security barriers to reach the mihrab, the holiest point of the mosque. Hindu militants believe it was on this very spot Lord Ram was born, and here they want to place the "garba-griha" (the sacred centre) of the new temple. Since 1949, statues of Ram have been placed beside the mihrab, making this unique in India as a Moslem place of worship where only Hindu prayers are heard. Hindus claim the mosque was put up by Moslem invaders in the 16th century after destroying an existing temple. Controversy has intensified over the last 100 years. The mosque was locked in 1950 to prevent communal conflict.

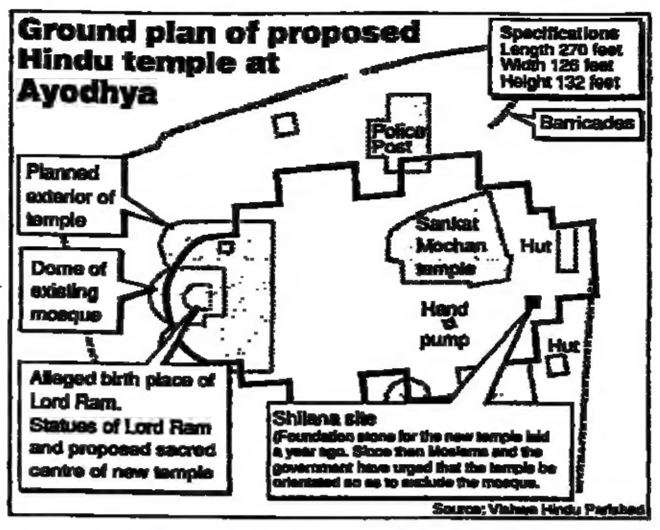
Prime Minister Rajiv Gandhi allowed the locks to be removed in 1986 and a foundation stone for the new temple to be laid last year. Mr Gandhi hoped to exploit Hindu sentiment in last year's general election, but found that his defeat in north India was due to Moslems leaving him in droves. The reasons for the recent surge of Indian fundamentalism are complex. But at the core is a readiness to blame India's current ills of India on those seen as undermining traditional Hindu values and society – Moslems, Sikhs, Christian evangelists, western liberals and western-educated Indians.

"This huge and noble society has undergone great degradation," says a recent pamphlet issued by the Vishwa Hindu Parishad (VHP), the main fundamentalist organisation behind the building of the temple. "Hinduism today is in mortal danger as never before." The fundamentalist revival drew its initial strength from Hindu anger at Moslem conversions of Hindu poor in Tamil Nadu in 1981. The anger was fanned by the growth of Sikh separatism in the Punjab, by the Sikh terrorist assassination of former Prime Minister Mrs Indira Gandhi, and by Moslem separatism in Kashmir.

Since then, Hindu fundamentalists have widened their base in the cities amongst a population which has lost its bearings under the pressures of rapid change and sees in traditional Hinduism a source of comfort. Of late, the BJP has picked up support by projecting itself as the guardian of moral values against the corruption of the state and the political class. It has benefited from the anger of upper-caste Hindus, 20 per cent of the population in the north, against Mr V.P.Singh's programme of job reservation for the poor, seen as dividing the country on caste lines.

In contrast to this image of a society torn apart, construction of the temple has become the symbol of a Hinduism victorious over its enemies and of a Hindu community reunited and harmonious. As with most fundamentalist causes, it is a symbolism both appealing and terrifying in its consequences.

Ground plan of proposed Hindu temple at Ayodhya



Source: Vishwa Hindu Parishad

OVER 60,000 Hindu militants have been arrested in Uttar Pradesh, North India, as tension mounted over the weekend ahead of tomorrow's ceremonies to mark the start of construction of the planned Hindu temple at Ayodhya, David Housego reports.

Ayodhya, and the nearby town of Faizabad, have been placed under indefinite curfew to prevent militants gathering there in advance of the ceremonies.

All roads to Ayodhya have been closed and many trains across North India cancelled. Parts of the eastern state of Bihar and Rajasthan are also reported tense, with the army called in to reinforce paramilitary forces.

Ivory Coast votes amid malpractice allegations

By Julian Ozanne in Abidjan

VOTERS in the Ivory Coast went to the polls yesterday, amid widespread allegations of electoral malpractice in the first multi-party presidential elections since independence in 1960.

At several polling stations in the capital, Abidjan, angry opposition supporters, alleging blatant government cheating, smashed ballot boxes, ripped up voting slips, and clashed with police.

The elections, taking place in an atmosphere of political tension, mark the single most important test of the possibility of political transformation for the rest of Africa, where democratic movements are beginning to stir.

After three decades of one-man, one-party rule, President Felix Houphouet-Boigny, Africa's longest-ruling president, is being opposed by Mr Laurent Gbagbo, a historian and a leader of the Ivorian Popular Front (FPI).

At Yopougon, a suburb of 700,000 people and a stronghold of the FPI, voting had been stopped in at least 12 polling stations by midday because computer electoral lists prepared by the Government were blank.

Opposition officials alleged that members of the ruling PDCI party had toured polling stations, telling their supporters to carry away Mr Gbagbo's pink voting papers. Last night, reports also indicated disruptions at polling stations in the countryside.

While some of the problems reflected the difficulty of organising a multi-party election in Africa, many voters interpreted any technical hitch as evidence of rigging by the ruling party.

Throughout the 10-day electoral campaign, Mr Gbagbo has claimed that the ruling party would deny him a fair showing. In the last uncontested presidential election in 1985, Mr Houphouet-Boigny won 100 per cent of the vote.

NEWS IN BRIEF

Israel accepts findings of Old City killings inquiry

THE Israeli Government yesterday formally accepted the findings of an official inquiry into the killing by police of at least 19 Palestinians in Jerusalem's Old City earlier this month, writes Hugh Carnegy in Jerusalem. Palestinians said the conclusions ignored evidence that excessive live fire was used. Meanwhile, access to Israel from the occupied territories was re-opened.

Iraqi tanker boarded

An Iraqi tanker in the Arabian sea was boarded by US marines yesterday after it ignored warning shots and passes by US fighter jets, Reuter reports from Dhahran. The US navy said the tanker was allowed to proceed after no prohibited cargo was found on board. The ship was heading for Iraq.

Nakasone to meet Saddam

Former Japanese premier Yasuhiro Nakasone will meet Iraqi President Saddam Hussein in Baghdad this week, in a bid to win the release of some of the 342 Japanese nationals detained there, writes Ian Rodger in Tokyo. The Japanese government said he would not be going as a government envoy. Over 300 French hostages held in Kuwait and Iraq are due to return to Paris late this afternoon, after a week of uncertainty over their release, George Graham adds from Paris.

German troops clash

The German Government is running into growing opposition to its plan for a constitutional change to allow deployment of German troops outside the North Atlantic Treaty Organisation area, writes David Marsh in Bonn. Mr Hans-Jochen Vogel, chairman of the opposition Social Democrats, said he would back such a change, which needs a two-thirds majority, only if it is linked to a ban on German arms exports.

Nicaragua jobs pact

Nicaragua's government has reached a six-month no-strike pact with the powerful National Workers' Front, writes Tim Coone in San Salvador. In return, state-sector redundancy plans have been suspended, and a rapid phase-out pledged of the old cordoba, which still circulates alongside the new gold cordoba, pegged to the US dollar.

Oslo government near collapse

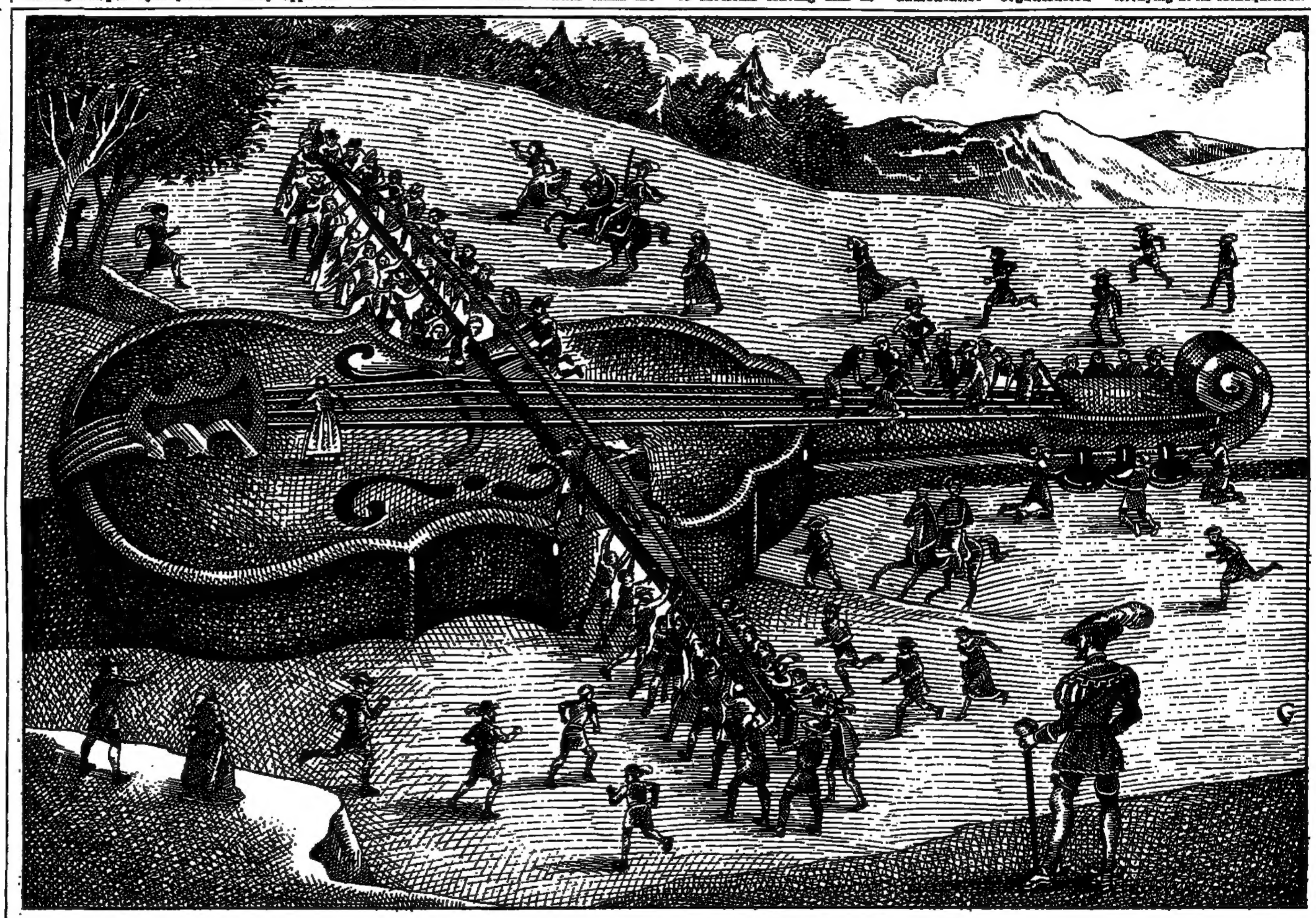
Norway's government last night seemed almost certain to collapse as the tiny Centre party signalled its intention to withdraw from coalition with the Conservatives and Christian Peoples' Party over links with the EC, writes Karen Fossli in Oslo.

WORLD ECONOMIC INDICATORS

RETAIL PRICES (1985=100)

	Sep.'90	Aug.'90	Jul.'90	Sep.'89	% change over previous year
US	123.4	122.3	121.2	116.2	+ 6.2
Japan	109.0	108.1	107.9	106.0	+ 2.8
W.Germany	107.5	107.1	106.8	104.4	+ 3.0
UK	136.7	135.4	134.0	123.3	+10.9
Belgium	112.4	111.3	110.7	108.4	+ 3.7
Netherlands	104.8	103.9	103.5	102.0	+ 2.7
	Aug.'90	Jul.'90	Jun.'90	Aug.'89	
France	117.0	116.3	116.0	113.0	+ 3.5

Source: (except US) Eurostat



Thatcher lashes out in radio interview at failure to reach agreement on farm subsidies

Bitter words for Britain after Rome summit

By David Buchan and John Wyles in Rome

IRRITATION at some of Mrs Margaret Thatcher's summit tactics and resentment at the British press' treatment of the Italian presidency of the European Community added a sharp edge to the closing comments of Mr Jacques Delors, the president of the European Commission, and Mr Giulio Andreotti, the Italian prime minister.

The former clearly accused his British counterpart of not understanding the working of Community institutions, while the latter implied that she was failing to provide the political inspiration needed to guide the choices to be made for Europe's future.

The European Council opened on Saturday evening in a mood of slight exasperation after Mrs Thatcher insistently demanded a discussion on the failure of the Twelve to agree a common position on cutting farm subsidies.

Explaining his refusal to allow a debate, Mr Andreotti said yesterday that the heads of government were not sufficiently briefed.

Mr Delors, however, was altogether more astringent. "I would remind the sharp tongues," he said, "that we are not the Americans who negotiate and then consult their congress."

The community had to consult its congress (the council of ministers) first, and the process was not an easy one. "Those who wished the European Council to try to negotiate on the matter are those who don't understand community institutions," he added, leaving little doubt about his target.

The Italians, for their part, have been stung by British press suggestions that their presidency has been ill-organised and particularly wounded by the comment, made by an authoritative weekly, that it resembled a bus driven by the Marx brothers.

Mr Andreotti clearly felt that the summit's achievements were a sufficient answer to criticisms, also from the British press, that the summit was unnecessary.

Such pessimistic comments, he said, specifically reflected an unwillingness to go along with the general movement of the community. Meetings were not being held for the pleasure of meeting but in an effort to develop the community.

The other 11 "cannot afford to lose patience with a country as important as Britain," said Mr Andreotti. They were pursuing the right road and "we hope at some stage this will be recognised."

"In the decisions which are mounting up it is important that there will be political inspiration guiding the choices to be made. We hope that in future this will happen to Britain."

MRS MARGARET THATCHER yesterday launched a withering attack on the conduct of the summit and castigated the French and Germans for refusing to reach agreement "for national reasons" on farm subsidies, writes PA in London.

In a BBC radio interview, she accused EC leaders of living in "cloud cuckoo land" over fixing a date, January 1 1994, for the start of the second stage of Emu without first having decided its substance. "That is putting the cart before the horse," she said.

Mrs Thatcher said angrily that the way business at the summit had been conducted was "not competent" and "a mess".

She prime minister also underlined her bitter dislike of an imposed single European currency and warned that it would never get through parliament. "If anyone is suggesting that I would go to parliament and suggest the abolition of the pound sterling – no!"

Mrs Thatcher criticised the way business was handled in Rome, saying: "We are in the silly position where we could not reach a decision on the urgent things, and the presidency curtailed discussion on the urgent things but took refuge on non-urgent and distant things, cloaked in grand and vague words because we have not got round to the nitty-gritty of negotiation."

She went on: "We shall block things which are not in Britain's interests. Of course we shall.

On farm subsidies, she said: "The European Community is the only big trading group that has not tabled its negotiating position. We have been at it since September, 1986. There are only two months left."

Britain had been trying to accelerate the talks, but after 16 hours in Luxembourg, they were "blocked by the national interests on the part of those who in other fora would be saying, 'You must not have a national position, you must have a federal position'."

She went on: "It was blocked by the position of France for national reasons and also by Germany for national reasons, although the community has all the power to reach a decision by a majority vote.

"If the Uruguay Round (on farm subsidies at the General Agreement on Tariffs and Trade talks) fails because of the community not doing its stuff, it will not be because of Britain. It will be because of the others."

She insisted that farm trade matters should have been resolved yesterday. "But the Italian presidency decided not to deal with the difficult things, which are urgent, but to deal with the things that are far away because they are not so keenly contested."

Mr Helmut Kohl, the German chancellor, and his foreign minister, Mr Hans Dietrich Genscher (right), hold talks before the start of the last session of the EC summit in Rome

Firm stand taken on hostages in Iraq

By David Buchan and John Wyles in Rome

COMMUNITY leaders sought yesterday to counter any impressions that Iraq could use the release of hostages to weaken international determination to force its withdrawal from Kuwait.

During discussions over dinner on Saturday evening President François Mitterrand was at pains to make clear there had been no secret negotiations to secure the release of the French hostages.

Agreed on the need for a fresh common initiative, the heads of government decided to encourage the UN secretary general to send a representative to Iraq to seek the release of all western detainees.

This was announced in one of two tough declarations on Middle East issues which answered a US appeal, made by President George Bush in a telephone call to Mr Giulio Andreotti, the Italian prime minister and summit chairman, to dispel any thoughts of a cracking in the united anti-Iraq front.

The EC condemned the holding of hostages, held the Iraqi government responsible for their safety and denounced "the unscrupulous use which Iraq is making of them with the sole and vain purpose of trying to divide the international community."

In addition, the heads of government pledged not to send any representatives to negotiate the release of hostages "and to discourage others from doing so."

Iraqi conduct, said Mr Andreotti was profoundly damaging to its own interests "because hostility is building up in our different countries." Nevertheless, it was still agreed that military action should only be "a final recourse" to be used after all other means - the embargo and political pressures - had been explored, added Mr Andreotti.

In their general statement on the Middle East the Twelve dealt both with the occupation of Kuwait and the broader Arab-Israel conflict. They reiterated previous demands for a full Iraqi withdrawal, the restoration of the legitimate government of Kuwait, and the freedom of all foreign citizens to leave Iraq and Kuwait.

The need to find a "just and lasting" settlement of the Arab-Israel conflict was followed by an expression of support for the calling, "at the appropriate time," of an international peace conference.

Israel was urged to co-operate with the UN's efforts to protect the rights of Palestinians. While referring to the recent "tragic" shootings of Arabs in Jerusalem, the Twelve deplored all violence including attacks on Israeli citizens.

Italians perform a Euro-miracle by putting political clocks forward

By David Buchan and John Wyles in Rome

ITALY yesterday performed a miracle of political chronology by advancing the Comunity clock two months: October became December.

What had been expected at mid-December's inter-governmental conference (IGC) – a decision by Britain's 11 EC partners to set their timetable for moving to the next stage of economic and monetary union (Emu) – occurred at the weekend summit in Rome. This forced Prime Minister Margaret Thatcher into the lone statement of dissent on Emu that she had been saving for December.

The British leader may have told everyone, in and outside the gilded rooms of the Palazzo Madama, that the "real arguing" was for the December IGC, the outcome of which would have to be agreed by all 12 governments and ratified by all 12 parliaments. But the fact is that her 11 partners have now put their names to a 1994 starting date for the next phase of Emu and spelt out conditions, from which they will find it nearly impossible to depart during the IGC.

Italy's tactics in forcing the timetable brought criticism from Mr Uffe Ellemann-Jensen, the Danish foreign minister, who said "ditches (between the UK and the rest) have been dug which it will prove difficult to fill again." But Mrs Thatcher, too, had a shovel in hand, when she told a post-summit press conference: "I will never put a plan for a single currency before the House of Commons".

Britain's partners have now agreed that:

- Emu's stage two, with at its outset the setting up of the EuroFed, the planned federal central bank, should begin on January 1, 1994, provided certain conditions are met.
- These conditions are: finishing the EC single market programme, the largest possible number of (but not necessarily all) EC currencies in the exchange rate mechanism, and parliamentary ratification of an Emu treaty.

This, in turn, would contain secondary legislation ensuring freedom from national political influence for individual national central bank governors sitting on the EuroFed board and preventing individual governments from printing money to cover their deficits.

If, as seems likely, this list of conditions becomes holy writ for the Eleven, it will pre-empt, in future discussion of when to start stage two, any further attempts by the German finance ministry and Bundesbank to add further conditions about narrowing of inflaton rate differences, or Dutch suggestions that the EuroFed only gradually evolve in Stage Two out of a beefed-up committee of EC central bank governors, or the desire of poorer countries, like Portugal, to have a rider added that predicate stage two on more structural economic aid from their richer EC partners.

- "At the latest three years after the start of stage two" – 1997 – there would be a review of progress on monetary union, and in particular on macroeconomic convergence, "to enable the decision to move to stage three to be taken within a reasonable time period".

This was the first time an EC summit communique had talked of the timing of stage three, defined as the Community acquiring "a single currency - a strong and stable Ecu".

Its precise formulation assuaged residual German-Dutch anxiety about the Community building a monetary house on the sands of economic divergence, and nervousness on the part of countries like Italy and France about entering an open-ended stage two.

French ministers talked of stage two lasting 4-6 years and only Mr Jacques Delors, the Commission president, opined that the EC could give itself a single money before the year 2000.

Mrs Thatcher was more conciliatory in the dissenting note she wrote into the summit communique than after the summit when she was pressed by reporters to state her bottom-line position on an eventual Emu.

The UK said "it agrees that the overriding objective of monetary policy should be price stability, that the Community's development should be based on an open market system, that excessive budget deficits should be avoided, and that there should be no monetary financing of deficits, nor assumption of responsibility on the part of the Community nor its member states for one member state's debts."

This allowed Prime Minister Giulio Andreotti to say the UK "clearly appreciated" its partners' platform.

The UK said that "while ready to move beyond stage one through creation of a new monetary institution and a common Community currency (the hard Ecu), it believes that decisions on the substance of that move should precede decisions on its timing". A hard Ecu-issuing bank could be created the day after a new treaty was ratified, it implied.

Pointing path to second phase of economic and monetary union

The following is the text pertaining to economic and monetary union from yesterday's 16-page final statement:

THE European Council in Madrid fixed the date for the start of the first phase of economic and monetary union; in Strasbourg and Dublin it set the timetable for the intergovernmental conference and the ratification of its results. It now notes with satisfaction the important developments that have occurred in the wake of these decisions.

The council takes note of the results of the preparatory work that constitutes the basis for the intergovernmental conference.

For the final phase of economic and monetary union, eleven member states consider that the work on the amendment of the treaty will be directed to the following points:

- for economic union, an open market system that combines prices stability with growth, employment and environmental protection, and is dedicated to sound and sustainable financial and budgetary conditions, and to economic and social cohesion. To this end, the ability to act of the community institutions will be strengthened;
- for monetary union, the creation of a new monetary institution comprising member states' central banks and a central organ, exercising full responsibility for monetary policy. The monetary institution's prime task will be to maintain price stability; without prejudice to this objective, it will support the general economic policy of the community. This institution as such, as well as the members of its council, will be independent of instructions. It will report to the institutions which are politically responsible.

With the achievement of the final phase of economic and monetary union, exchange rates will be irrevocably fixed. The community will have a single currency – a strong and stable Ecu – which will be an expression of its identity and unity. During the transitional phase, the Ecu will be further strengthened and developed.

The second phase will start on 1 January 1994 after:

- the single market programme has been achieved;
- the treaty has been ratified; and by its provisions:
- a process has been set in train designed to ensure the independence of the members of the new monetary institution at the latest when monetary powers have been transferred;
- the monetary financing of budget deficits has been prohibited and any responsibility on the part of the community of its member states for one member state's debt precluded;
- the greatest possible number of member states have adhered to the exchange rate mechanism.

With the achievement of the final phase of economic and monetary union, exchange rates will be irrevocably fixed. The community will have a single currency – a strong and stable Ecu – which will be an expression of its identity and unity.

The European Council recalls that, in order to move on to the second phase, further satisfactory and lasting progress towards real and monetary convergence will have to be achieved, especially as regards price stability and the restoration of sound public finances.

At the start of the second phase, the new community institution will be established. This will make it possible in particular:

- to strengthen the co-ordination of monetary policies;
- to develop the instruments and procedures needed for the future conduct of a single monetary policy;
- to oversee the development of the Ecu.

At the latest within three years from the start of the second phase, the Commission and the council of the monetary institution will report to the Ecofin Council and to the General Affairs Council on the functioning of the second phase and in particular on the progress made in real convergence, in order to prepare the decision concerning the passage to the third phase, which will occur within a reasonable time. The General Affairs Council will submit the dossier to the European Council.

The treaty may lay down transitional provisions for the successive stages of economic and monetary union according to the circumstances of the different countries.

The United Kingdom is unable to accept the approach set out above. But it agrees that the overriding objective of monetary policy should be price stability, that the community's development should be based on an open market system, that excessive budget deficits should be avoided, and that there should be no monetary financing of deficits nor the assumption of responsibility on the part of the community or its member states for one member state's debts.

The United Kingdom, while ready to move beyond stage one through the creation of a new monetary institution and a common community currency, believes that decisions on the substance of that move should precede decisions on its timing. But it would be ready to see the approach it advocates come into effect as soon as possible after ratification of the necessary treaty provision.

Both intergovernmental conferences will open on 14 December 1990.

هكذا عنه التكتل

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RMP RAND MINES PROPERTIES LIMITED

RAND MINES

(Incorporated in the Republic of South Africa)
Registration number 68/01239/06

Profit and dividend announcement for the year ended 30 September 1990

The audited consolidated results of Rand Mines Properties Limited ("RMP") and its subsidiaries for the year ended 30 September 1990 are set out below:

INCOME STATEMENT

	1990 R000	1989 R000	Change %
Turnover	172 188	165 702	+ 4
Operating profit			
– Property	17 740	9 528	+ 86
– Gold recovery	4 439	25 279	– 82
	22 179	34 807	– 36
Interest – net	11 960	5 283	+ 126
– Received	12 216	5 960	
– Paid	(256)	(677)	
Profit before taxation	34 139	40 090	– 15
Taxation	13 054	14 351	– 9
Profit after taxation	21 085	25 739	– 18
Attributable to:			
– Outside shareholder	157	284	– 45
– Members of RMP	20 928	25 455	– 18
Shares in issue (000's)	12 403	12 403	
Earnings per share (cents)	169	205	– 18
Dividends per share (cents)	140	140	
– Interim	40	40	
– Final	100	100	
Dividend cover	1.21	1.46	
Extraordinary items attributable to members not included in profit after taxation:			
– Goodwill on acquisition of shares in subsidiary (R000)	–	(439)	

NOTES:

1. *Review of results*
The results for the year have been affected by the substantial decline in profit contribution from the gold recovery operations. Profits from township land sales and the disposal of undeveloped land, combined with the significant rise in interest received enabled the company to earn R20.9 million for the year compared to R25.5 million for 1989.
The profit achieved was marginally higher than the estimate given in the Chairman's statement last year, and exceeded the forecast of R17.0 million made in the interim report.

1.1 **Gold recovery**

Operating results	Crown Mines and City Deep plants 1990	1989	Pilgrim's Rest plant 1990	1989
Sand and slime treated (000 tons)	7 870	7 812	249	249
Gold produced (kg)	3 508	3 554	348	383
Yield (grams per ton)	0.45	0.46	1.40	1.54
Revenue (rand per ton treated)	14.94	15.16	45.84	49.17
Cost (rand per ton treated)	13.30	10.88	36.96	35.50
Working profit (rand per ton treated)	1.64	4.28	8.88	13.67
Gold price received (rand per kg)	33 516	33 322	32 781	31 981
	R000	R000	R000	R000
Revenue	117 576	118 426	11 401	12 249
Costs	104 709	85 004	9 191	8 843
Working profit	12 867	33 422	2 210	3 406
Amortisation	9 040	9 991	1 598	1 558
Operating profit	3 827	23 431	612	1 848

1.2 **Cash and bank balances**
The group's surplus cash at 30 September 1990 was R58.2 million (1989: R50.4 million).

2. ***Final dividend***
A final dividend of 100 cents (1989: 100 cents) per share has been declared.

3. **Posting of annual financial statements**
The company's annual financial statements will be mailed to members during the second half of November 1990.

4. **Annual general meeting**
The annual general meeting of the company will be held on *Thursday, 10 January 1991 at 11:00.*

Johannesburg
26 October 1990

For and on behalf of the board
D. T. WATT
J. R. FORBES — Directors
J. P. S. TURNER

Declaration of Dividend No. 29

The directors of the company declared dividend No. 29 as a final dividend in respect of the year ended 30 September 1990 as follows:

Amount (South African currency)	100 cents per share
Last day to register for dividend (and for changes of address or dividend instructions)	9 November 1990
Register closed from to (inclusive)	10 November 1990 16 November 1990
Ex-dividend on the Johannesburg and London stock exchanges	*12 November 1990*
Currency conversion date for sterling payments to shareholders paid from London	12 November 1990
Dividend warrants posted	2 January 1991
Rate of non-resident shareholders' tax	15 per cent

The full conditions relating to the dividend may be inspected at or obtained from the Johannesburg offices of the company and its transfer secretaries.

Johannesburg
26 October 1990

By order of the board
Rand Mines (Mining & Services) Limited
Secretaries
Per J. W. GOATCHER

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INTERNATIONAL NEWS

IATA ANNUAL REPORT

Mideast crisis 'hitting airline costs'

By Paul Betts, Aerospace Correspondent

THE Middle East crisis is putting severe pressure on international airline costs, speeding up the two-year-old trend in declining airline profitability, the International Air Transport Association (IATA) warns in its 1990 annual report, published today.

The financial situation of airlines was already deteriorating during the first half of this year before Iraq's invasion of Kuwait. But the Gulf crisis has worsened the outlook, says Mr Gunter Eser, IATA director-general.

Although it remains impossible to forecast the outcome for the full year, IATA expects higher fuel prices and the sharp rises in aircraft hull insurance in the Middle East to have a severe impact on airline profitability.

The US airline industry, in throes of a wave of consolidations, is forecasting losses of \$1.5bn-\$2bn (£760m-£1.02bn) for US airlines alone this year. Many European carriers have also warned of growing losses.

The latest IATA figures show a 76 per cent fall in the collective net profits of the organisation's 200 member airlines last year compared with 1988. Net profits declined to \$600m from \$2.5bn, while operating profits fell to \$4.3bn last year from \$6.2bn the year before.

Total revenues rose to \$144.5bn last year from \$125.1bn the previous year, but operating expenses increased more sharply from \$118.9bn to \$140.2bn.

Cumulative net profits for international scheduled operations also fell steeply from \$1.6bn to \$300m, accounting for a meagre 0.4 per cent of international scheduled revenues of \$70.7bn last year.

Scheduled international traffic showed a 7 per cent growth last year with more than 200m passengers flying. By contrast, domestic traffic was sluggish.

IATA is forecasting 8 per cent growth in international scheduled services this year, settling down to 6.9 per cent next year, 6.6 per cent the following year and 6.5 per cent in 1993-94. But these forecasts were made before the impact of the Middle East crisis on the industry became clear.

Cargo traffic is expected to grow by about 7.5 per cent this year and then average about 7 per cent a year through to 1994.

The Far East remains the fastest growing region for the airline industry, with nearly 10 per cent annual growth for north-east Asia and 8.8 per cent growth for south-east Asia during the next four years.

IATA expects North America and Europe to continue to show steady annual growth averaging 6.8 per cent and 6.2 per cent respectively.

By the end of the decade, quantifiable annual losses to European economies arising from the failure to alleviate capacity constraints could exceed \$10bn, IATA says, adding that unquantifiable economic and social costs could be even higher.

Latin American growth 'due to resume'

By Robert Graham

LATIN AMERICA can look forward to "improved prospects" and resumption of growth in the 1990s, providing the pace of policy reform is maintained and resources are harnessed more efficiently.

This cautious assessment of improving growth prospects for the region comes in the Inter-American Development Bank's annual report on Economic and Social Progress in Latin America, out yesterday.

It is the first time since the onset of the 1982-83 debt crisis that the IADB, the multilateral institution monitoring the region's economy most closely, has adopted an upbeat tone.

During the past "lost" decade, annual average growth shrank to 1.1 per cent, against 5.9 per cent during the 1970s. The terms of trade deteriorated, so that by 1989 they were 21 per cent off their 1980 level.

Per capita income dropped in 19 of the 25 Latin American and Caribbean countries, while a combination of inflation and unemployment increased to 164m (38 per cent) the number of people living in extreme poverty.

The IADB attributes the improved prospects to a "quiet revolution" in the thinking of policy makers and in their approach to solving the region's increasingly complex problems.

The report believes a new broad-based consensus has emerged, emphasising the need for "a more outward orientation of the region's economies, with greater importance on being competitive in world markets and on reliance on market forces to determine prices".

The report was prepared before the Gulf crisis and makes no reference to the impact of higher oil prices. It assumes moderate growth in the world economy, and on this basis says there should be "ample opportunities for export-led growth in the countries that maintain competitiveness and that direct physical and human capital toward activities with a comparative advantage".

The IADB discounts Latin America losing out as a result of international attention being shifted to eastern Europe and the Soviet Union. On the contrary, it sees potential benefit "from the incorporation of these formerly centrally-planned economies into a more open system of world trade."

It also believes that relaxation of East-West tension will permit the US to focus more on the region, so expanding on its Caribbean Basin Initiative, seriously establishing a free-trade area with Mexico and moving towards a hemisphere-wide "single inter-American free trade zone".

To succeed, Latin America's export effort must involve modernisation of the private sector and rationalisation of the public sector. But slimming the role of the state will leave the public sector with important responsibilities regarding infrastructure of transport and communications.

The report stresses the need for investment in basic education and manpower training, neglected during the debt crisis. This is the key to "a more productive labour force and to any durable recovery".

To sustain a recovery, the report says Latin American nations will have to do more to raise the level of domestic savings. The latter must be used as the principal means of funding investment and can only be complemented by increased foreign direct investment, return of flight capital, debt reduction and stepped up bilateral and multilateral lending.

Each of the latter sources of funding depend "crucially on a continuation of the policy reforms now under way in the region". The IADB emphasises the inter-dependence of these reforms.

Private sector savings will result from increased financial liberalisation and from tax reforms initiated during the 1980s; higher public savings will come from restructuring the public sector, while privatisation should encourage debt reduction, so reducing debt overhang and encouraging foreign investment.

Finally, the report sees greater external financing being linked to carrying out economic liberalisation and deregulation.

THE International Finance Corp (IFC), a World Bank subsidiary, has agreed to lend \$32m (£16.2m) to a new Venezuelan petrochemical project called Pralca, Joe Mann *reports from Caracas.*

The project involves building a \$180m plant for producing ethylene oxide (72,000 tonnes-a-year capacity) and ethylene glycol (16,000 tonnes a year) – chemicals used to make anti-coagulants, plastics, detergents and anti-corrosive agents. This is the first plant of its type in Venezuela.

Pralca's partners are the Venezuelan government petrochemical producer, Pequiven; Olin Corp of the US; and Corimon, a diversified Venezuelan industrial group. The IFC is taking a 10 per cent equity share in the project with an investment of \$6m.

***Other loans are also* being made in the form of buyers' credits guaranteed by the government of Italy. These loans are to be provided by Crédit Lyonnais (\$11m) and the Andean Development Corp (\$42m), a regional financial institution.**

About 55 per cent of Pralca's output will be exported. The plant, to be built in the western state of Zulia, should go on stream in 1992.

Hong Kong fails to win Peking backing for new airport plans

By John Elliott in Hong Kong

HONG KONG has failed during two weeks of talks with senior officials from China to win Peking's support for plans to build a HK\$38bn (£2.5bn) international airport on reclaimed land.

The leader of a Peking delegation to Hong Kong said yesterday that China had important reservations about the proposed siting, size and funding of the airport.

Mr Luo Jaihuan, who is research director of China's Hong Kong and Macao Affairs Office, said he hoped Hong Kong would re-examine these issues.

This outspokenness is a blow for Hong Kong. Senior government officials knew when the delegation arrived earlier this month that it had no authority to approve the projects. But they had hoped to win enough support to prevent any statements being issued beyond bland comments by both sides at the end of last week.

The airport, part of infrastructure projects costed at HK\$127bn when they were announced a year ago, is urgently needed to replace Hong Kong's existing heavily congested Kai Tak airport. China accepts this but is using the issue to demonstrate its claim to a say in the affairs of the colony, which returns to its sovereignty in 1997.

Until China gives its approval, private sector institutions, which are expected to provide 40 per cent or more of the capital cost from international sources, are unlikely to confirm their interest.

This forced the government earlier this month to abandon plans for international companies to finance, construct and operate HK\$6bn-HK\$12bn bridges and tunnels to the airport. Instead it will carry out the project itself, with money from its own reserves.

Critics say that the projects are too grandiose, that the bridges and tunnels are badly sited, and that the government is being insensitive in its dealings with China.

In particular, they say it is refusing to acknowledge that China has rights to anything more than broad consultation.

Mandela speaks to Diet tomorrow

MR NELSON Mandela, the South African political leader, will tomorrow become the first black man ever to address the Japanese Diet, Ian Rodger reports from Tokyo.

This will be the highlight of a six-day visit illustrating a remarkable change in official Japan's attitude to the outside world in general, and to the world's poor - and poor blacks - in particular.

Until a few years ago, Japanese people scarcely thought of Africa. Now, Mr Mandela comes on an official invitation, almost as a hero.

Yesterday, he addressed an 20,000-strong anti-apartheid rally in Osaka. Today, he begins a round of calls in Tokyo. Virtually every leading politician wants to meet him. Mr Mandela, deputy president of the African National Congress, is above all seeking financial aid for the ANC.

Wimpey men in group arrested in Liverpool

By Emma Tucker and Andrew Taylor

A SENIOR executive and a former executive of Wimpey, the UK construction group, were among 22 people arrested on Friday by police investigating alleged land corruption deals involving Liverpool City Council, the group said yesterday.

Mr Alan Worthington, regional director of Wimpey's north-west division, and Mr Geoffrey Slater, who retired as regional director last year, were released on police bail along with 18 other people, including Mr Derek Hatton, former deputy leader of the council.

Two of those arrested were charged with handling stolen goods unrelated to the police inquiry into corrupt land deals. They are due to appear in Liverpool City Magistrates Court today.

Others released on police bail include Mr Max Robinson and Mr Anthony Sykes, directors of the small Stockport property companies Tentigo and Sterling Land and Property; two city councillors, Ms Hannah Folan and Mr George Knibb; Mr John Nelson, a former Liverpool councillor; and Mr Tony Beygar, a former Knowsley councillor.

More than 50 private and business premises were raided by police officers on Friday including the Liverpool offices of Wimpey, from which police removed some documents.

Sir Clifford Chetwood, Wimpey's chairman and chief executive, said the group would not be in a position to comment until the full nature of the investigations was known.

Wimpey is a leading contractor in the north-west, where it has worked widely for local authorities, including Liverpool City Council. However, orders have fallen as councils have cut spending. Wimpey's north-west division employed Settleside, Mr Hatton's public-relations company, as marketing consultants until about the end of last year.

Superintendent Robert Coady, head of the Merseyside fraud squad said their investigations included inquiries into suggestions that some funds may have ended up with Militant Tendency.

Militant, the hard-left political organisation with which Mr Hatton was associated when deputy council leader, denied it had received money from Wimpey or other companies.

"Our supporters have had a very rigorous attitude to money matters," said Mr Ken Smith, of Militant. "Our funding has come almost exclusively from smaller donations and I can deny that we have ever had any money from Derek Hatton or Wimpey."

Alan Harper

Prof Littlechild: will evaluate all purchasing contracts

Power companies face policy review

By David Thomas, Resources Editor

A SWEEPING review of the regional electricity companies' purchasing policies and independent power projects is to be undertaken by the industry's regulator after they are privatised.

The review may be interpreted by industry observers as limiting the regional companies' freedom of decision-making in some of the most important areas of their activities.

Details of the review are contained in a letter from Professor Stephen Littlechild, director general of the Office of Electricity Supply, to the 12 regional electricity companies, which are due to be privatised in December.

A lengthy extract from the letter, which has not been published, is contained in a draft of the privatisation prospectus leaked this week to Friends of the Earth, the environmentalist group.

Explaining the reasons for the review, Prof Littlechild tells the regional companies in the letter: "The electricity purchasing policies of the [regional companies] will greatly influence the future development of the industry."

Prof Littlechild therefore proposes "to evaluate at periodic intervals the whole portfolio of purchasing contracts (including short-term and options contracts) that a [regional company] has undertaken".

It is understood that the review will take place in about three years' time, about one year before the planned full examination of the industry's price-control formula.

As part of the review, the regulator will look at stakes held by the regional companies in the new wave of independent power stations.

"Where a [regional company] has taken equity in generation projects, I would need to be assured in addition that other generators had not been overlooked or put at a disadvantage," Prof Littlechild says in his letter.

It is understood that Prof Littlechild will want to ensure that the electricity purchases of a regional company do not favour an independent generating company in which it holds a stake.

He adds: "I would need evidence that, in accepting particular contracts, due attention had been given to seeking out the most favourable proposals."

His objective would be "to assess the reasonableness of the [regional company's] strategy as a whole."

It is understood that the regulator believes that the review is justified by the regional companies' statutory licence. That requires each company "to purchase or acquire electricity from the most economical sources available".

Divisions over Europe and waning popularity worry Tory party

By Ivo Dawnay, Political Correspondent

A FRESH outbreak of nervous jitters swept the Conservative party yesterday amid signs of worsening divisions over Europe and a marked deterioration in the party's showing in the opinion polls.

As Mrs Thatcher lambasted her EC colleagues for failing to give priority to urgent trade issues, Sir Geoffrey Howe, the deputy prime minister, tried to make light of Tory differences on EC steps towards monetary union.

However, his efforts, on London Weekend Television, immediately provoked calls for his resignation from a leading opponent of federalism. Mr Patrick Robertson, secretary of the anti-federalist Tory Bruges Group, said Sir Geoffrey's remarks showed he did not understand national sovereignty.

"His statement gave no clear message to the electorate about at which point the government is prepared to halt the process of integration within the EC," Mr Robertson said.

"As such he is in no position to defend the national interest and should resign."

The Tory disarray was highlighted by Mr Gerald Kaufman, Labour's foreign affairs spokesman, who attacked Mrs Thatcher for a "pathetic and ugly" response to the Rome meeting. Britain should be building alliances with her partners to obtain the Community changes it needed, he said.

Meanwhile, Conservative MPs were seeing new evidence of the party's declining fortunes with the electorate. Two polls published yesterday showed Labour's lead over the Tories increasing to 16 points and the Liberal Democrats improving on the back of their Eastbourne by-election victory.

A Market & Opinion Research International (Mori) sample of 1,940 voters in The Sunday Times saw Labour at 49 per cent (up from 45 per cent last month), Conservatives at 33 per cent (38 per cent) and the Liberal Democrats at 14 per cent (12 per cent). It also reported that Mrs Thatcher's personal approval rating had dropped from 36 per cent to 29 per cent.

Both parties have recently put education as the top issue on their agenda of policy priorities.

Labour's new lead – its best showing since the poll tax protests six months ago – and the improved showing of the Liberal Democrats were almost exactly paralleled in a Harris poll in the Observer.

In another survey, most MPs were seen to favour a single currency. The poll of 70 Tory and 56 opposition MPs carried out by On Line Telephones, a Mori subsidiary, found support from 45 per cent of Tories and 65 per cent of opposition MPs. The opinion polls came shortly after a Conservative inquiry into the election defeat at Eastbourne absolved the party's campaign strategy of responsibility.

Barclays to cut 1,800 jobs in overhaul

By Richard Lapper

ABOUT 1,800 jobs are to go at Barclays Bank, the group confirmed yesterday. The move is part of a long-term overhaul of Barclays' retail branch network.

The decision to shed 1,300 clerical and 500 management posts was originally made this month after a one-year review of UK operations.

Barclays is regrouping its branch network into clusters of four or five banks around one central branch. A total of 467 clusters will be created. Overall, the number of Barclays branches will be reduced by about 110.

The bank says its services to customers should be improved by the change, which "allows individual branches to gain access to a greater level of expertise". At the same time, "the days of the traditional branch bank manager are over", it says.

Barclays aims to achieve the cuts through natural wastage and a slowdown in recruitment.

It will be seeking to retrain clerical workers into more skilled positions such as "personal bankers" and "loans officers" and says it "aims to transform a processing culture into a selling culture".

Weinstock would like son to head GEC

By Michael Skapinker

LORD WEINSTOCK, managing director of General Electric Company, said yesterday he would like his son, Mr Simon Weinstock, to succeed him as head of the group.

He added, however, that it would be for GEC's senior managers to choose his successor and it would be up to his son to decide whether he wanted the job.

Asked on Channel 4's Answering Back programme whether he would like to be succeeded by his son, he said: "Of course I would like it, but only on condition that it fulfilled his life and not that he did something to please me."

Lord Weinstock criticised aspects of the government's privatisation programme, including the electricity sale. He said sell-off decisions should not be made to satisfy particular political ideologies and that who ran public utilities was more important than who owned them.

He said he was watching the progress of STC, the telecommunications company, but had no intention of bidding for it at present. Asked if his attitude might change if someone he loathed bid for STC, he said: "I love everybody. Who could I possibly loathe?"

Cable TV popular with subscribers, study says

By Raymond Snoddy

THE CABLE Authority today publishes a study of viewer reaction to satellite television channels distributed through cable, which finds that the mixture of films, light entertainment, news, sport and music is popular with subscribers.

The respondents saw the channels as "quality television", which they defined as good-quality programmes of their type.

The qualitative research was based on detailed interviews with 30 cable television subscribers.

Earlier quantitative research showed that in cable homes the new channels were taking 40 per cent of adult viewing and 50 per cent of children's viewing.

Sky Television accounted for a 25.6 per cent weekly share of viewing and the newer British Satellite Broadcasting, in which Pearson, publisher of the Financial Times, has a stake, took an 8.4 per cent share.

Moves to end row on Aids compensation

By Ivo Dawnay, Political Correspondent

EFFORTS to defuse the political row over the issue of further government compensation for 920 haemophiliacs infected with the Aids virus are making progress in confidential talks with the victims' lawyers.

However, as MPs step up calls for a payout this week, the biggest obstacle to a deal lies in persuading all the plaintiffs to accept an out-of-court settlement.

The government is anxious to reach a deal to avoid an embarrassing and lengthy court hearing, which is scheduled to begin in March and could drag on dangerously close to a general election. It also wishes to head off mounting dissatisfaction from backbench Tory MPs who have joined their Labour counterparts in demanding an improvement in the £34m already paid in compensation.

The party leadership is more than aware that the tragedy, in which more than 1,200 haemophiliacs were infected with Aids from a blood-clotting agent widely used by the National Health Service, is bolstering allegations that the government is "uncaring".

However, the legal complexities of the individual cases are immense. Many of the victims – 150 of whom have already died – took out actions against individual doctors, local health authorities and the previous Labour government.

While refusing to admit negligence in the cases, lawyers representing the Department of Health and the Treasury have made it clear that more money will be forthcoming if all the loose ends can be tied up.

Talks between the government and the victims' lawyers centre on how to establish guarantees that this will be achieved. Then comes the problem of persuading all the victims to accept the deal and abandon legal actions.

UK NEWS

Chemical specialists stay immune to gloom

Clive Cookson on a possible misapprehension arising from ICI's recent results

WHEN people think of the UK chemical industry they usually think of ICI. So last week's news that ICI's third-quarter profits were at only half last year's level may give the impression that the whole industry is in recession.

However, ICI's troubles derive largely from its bulk chemical operations, which are always vulnerable to business cycles and have suffered additionally from the oil price rise following the Gulf crisis.

All the smaller UK chemical companies operate in the "speciality chemicals" sector, which has not been affected by the same sharp downturn as the international bulk chemicals industry.

Indeed, some products are still enjoying a sales boom. One is rayon, a cellulose fibre made by Courtaulds, a UK company that has been predominantly a speciality chemicals producer since the demerger of its textiles business early this year.

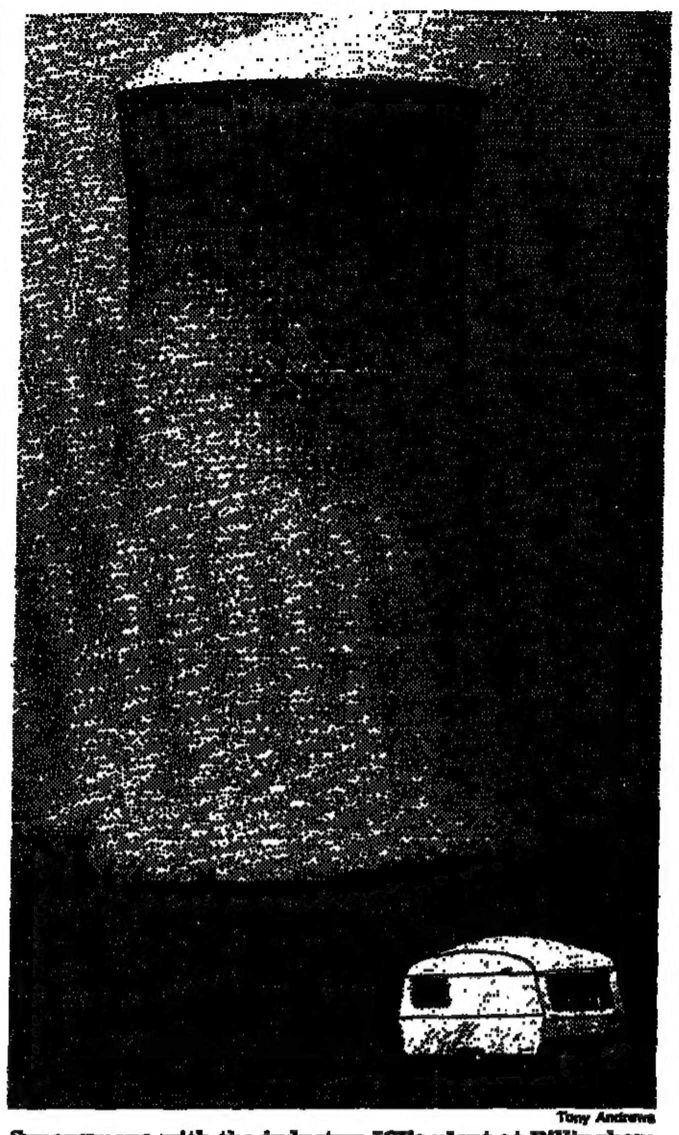
Rayon is very much in demand among upmarket clothes manufacturers, who are willing to pay a high price to obtain the material. A bonus for Courtaulds, which has 70 per cent of the US rayon market, is that the cost of its raw material, wood pulp, is falling.

The rayon boom is one reason why Mr Sipko Huismans, Courtaulds managing director, reacts impatiently to talk of a recession. "There is a danger of industry talking itself into a recession," he says, adding that Courtauld's trading position is as bright now as three months ago.

All industries use speciality chemicals as ingredients in their manufacturing processes. Since they are tailored to particular applications, such chemicals are far less vulnerable than bulk chemicals to the ups and downs of the economy.

"The bulk chemicals businesses are proving themselves to be as vulnerable as they ever were," says Ms Jinty Price, UK chemicals analyst at Barclays de Zoete Wedd. "In the speciality chemicals business, the general level of profits and margins are still reasonable. The divergence in performance between the two sectors is increasingly marked as we look into next year."

The UK's largest independent speciality chemical producer is BOC. Sales of its industrial gases such as oxygen and nitrogen are an excellent indicator of the level of industrial activity. Such gases are used widely across many sectors of the economy, and they cannot be stockpiled.



Tony Andrews

Synonymous with the industry: ICI's plant at Billingham

Mr Richard Giordano, BOC chairman, says the rate of growth of industrial gas consumption has been declining steadily over the past year. In October 1989, the volume of gas sales was 7 per cent higher than a year before. Sales are now close to the level of October 1989.

UK industry as a whole is now close to recession, Mr Giordano feels, but it has not yet fallen over the edge.

Mr John Cox, director-general of the Chemical Industries Association, says business began to turn down for most chemical companies during the third quarter of 1990. "But we don't see recessionary conditions at the moment. This is nothing like the situation we saw in the early 1980s."

Many specialist chemical companies export a large proportion of their output. They are being sustained by continuing growth in continental European and Far Eastern markets. Even some very small producers of specialised organic chemicals – companies with fewer than 10 employees, all highly qualified – sell most of their production overseas.

According to Mr Keith Wey, senior economist at the Chemical Industries Association, there is still real growth among producers of chemicals for the oil and electronics industries, and intermediate compounds, which go into pharmaceuticals.

Since the Iraqi invasion of Kuwait, the cost of naphtha, the oil derivative which is the main petrochemical feedstock, has doubled. That has led to a cascade of smaller price increases throughout the chemical industry.

Speciality producers are being asked to pay 10 to 20 per cent more for many chemical ingredients derived originally from oil. Price increases of that size are not a serious blow, since materials are not the main cost for producers of high-value specialist chemicals. In any case, the increases will be passed on to customers.

Mr Steve Cuthbert, chief executive of Brent Chemicals, says: "One of the disciplines of speciality chemicals is that you have to protect your margins and pass on your cost increases – and we're already doing that."

The rapid oil price rises 10 years ago caused large-scale stockpiling of oil-based chemicals by companies afraid of shortages and/or further price increases. There is some stockpiling again, but on a much smaller scale.

"At the moment, we're not seeing shortages but there is a fear of shortages," Mr Cuthbert says. "Where we have critical raw materials with long lead times, we're letting inventories build up." Brent is building up stocks of some oil-based solvents as well as surfactants – agents that act on the surface of liquids and solids.

For most bulk chemical companies, the rise in oil and energy prices as a result of the Gulf crisis is exacerbating the effects of the downturn. Costlier energy can, however, produce unexpected benefits for some companies.

BOC, for example, sells more oxygen when oil and natural gas prices are high over a sustained period. Many factories then feed oxygen into their combustion systems, to make the fuel burn more efficiently.

High UK interest rates can benefit international companies which have dollar debts and sterling deposits, but harm heavily indebted companies.

Most UK speciality chemical companies today, however, have strong balance sheets and will not suffer as a result of high interest rates. Many will be on the lookout for acquisitions if there is an industry-wide recession. This month's agreement by MTM of the UK to buy Hardwicke Chemical of the US for $112m may be a sign of things to come.

"I don't know of any truly recession-proof companies, except perhaps in pharmaceuticals," says Mr Giordano. He and his colleagues in the UK chemicals industry seem confident nevertheless that they are in much better shape to weather a recession in 1991 than they were 10 years ago.

THE recession-proof nature of National Health Service prescriptions and over-the-counter remedies has helped Britain's chemists to escape the ravages of the retail downturn, according to a report published today.

NHS prescriptions accounted for 44 per cent of chemists' turnover of £7.2bn in 1989. Excluding Boots, the diversified retailer, the NHS proportion soars to more than 60 per cent.

Boots accounted for 40 per cent of chemists' sales.

Verdict Research, an analyst specialising in the retail sector, concludes that many chemists lack sufficient entrepreneurial drive to increase non-NHS sales. The limit on new licences introduced in 1987 has encouraged takeovers.

Growth in the related drugstore sector – toiletry retailers that are not licensed to fill prescriptions – has slowed. Verdict, however, believes the UK could support 1,500 such outlets compared with the present figure of 1,100.

Verdict on Chemists and Drugstores. Verdict Research, 112 High Holborn. London WC1V 6JS. £595.

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LONDON BUSINESS SCHOOL FORECAST

Risk of slower growth and more jobless

By Rachel Johnson, Economics Staff

LOWER OUTPUT growth and rising unemployment will be the price of Britain's entry into the exchange rate mechanism of the European Monetary System, the London Business School warn today.

In its June forecast, the LBS predicted that Britain would join at a central rate of DM2.85 – so its October forecast focuses on the costs and benefits of joining the ERM at the higher central parity of DM2.95.

Entry at that rate is forecast to produce a recession in output growth in the second half of the year. Growth in gross domestic product is expected to slow to about 1.5 per cent this year and next, and average about 2 per cent from 1992 onwards.

The forecasters are pessimistic as to whether ERM entry will modify wage bargaining. Average earnings are rising at an annual rate of 10.3 per cent, but only when unemployment climbs will underlying earnings start to fall, the study says.

The sluggishness of wage bargainers' response to the ERM determines the outlook for unemployment, which is expected to rise steadily, reach 2m by 1992, and stay at that level until 1994.

On the fiscal and monetary framework, the LBS assumes that the government will avoid downward realignments within the mechanism and that policy will be designed for exchange-rate stability.

That leaves the scope for fiscal policy "severely curtailed", with no room for tax cuts as public spending is running far ahead of official targets. There will be a small budget surplus of £2.4bn this year – compared with the Treasury's forecast of £6.9bn – and then the budget will balance from 1991-92 onwards, the LBS says.

Sterling's wide bands, however, give flexibility on the government's policy stance. With the economy already experiencing a slowdown, and as the next election approaches, there is room for more interest-rate cuts, perhaps to 12 per cent by the middle of next year.

Consumer spending is set to decelerate further as a result of falling real income growth, and total fixed investment is also going to fall. On the trade side, muted domestic demand, the recovery of the exchange rate and the prospects of a world recession all conspire to weaken the outlook for exports.

The trend of rising manufactured exports is expected to rise only slightly. Even after four years of relatively slow growth, the current-deficit is forecast as £10bn in 1994, or 1.4 per cent of GDP.

While the slowdown in the economy means inflationary pressures are moderating, headline inflation and earnings are showing no sign of easing. However, September's 10.9 per cent rate of retail price inflation was the peak and, helped by lower mortgage rates, inflation should be back to 5 per cent by the end of next year, LBS forecasts.

ECONOMIC FORECASTS

	1990	1991	1992	1993	1994
GDP	1.5	1.4	2.2	1.9	2.4
Inflation	9.5	7.1	4.2	3.2	3.1
Consumers' Expenditure†	2.6	2.4	2.3	1.6	1.6
Total Fixed Investment†	-0.9	-1.3	1.4	1.5	2.3
Gen Govt Consumption	2.5	1.4	0.9	0.9	1.0
Stockbuilding†‡	-0.6	-1.5	0.5	0.8	1.4
Exports†	5.1	3.0	2.5	1.8	2.5
Imports†	2.6	1.8	2.9	1.0	1.0
Sterling Index*	92	94	94	93	92
PSDR (£bn,finan years)	2.4	-0.4	0.5	1.7	1.4
Current Balance (£bn)	-17.0	-16.6	-14.9	-11.8	-9.9
Adult Unemployment (UK, m)	1.6	1.8	2.0	2.0	2.0

Percentage change unless otherwise shown. † Percentage change in volume. ‡£bn, 1985. *1985=100.

Source: Economic Outlook 1990-1993, June 1990.

EC confrontation expected on carbon dioxide emissions

By Alison Smith in London, David Goodhart in Bonn and Lucy Kellaway in Brussels

THE UK is likely to face a head-on confrontation with the European Commission over stabilisation of carbon dioxide emissions when EC environment ministers meet today in Luxembourg.

Electricity privatisation and the consequent need to have a firm commitment on the target for carbon dioxide (CO_2) emissions, the main contributor to global warming, in the offer prospectus mean that the UK has little or no room for manoeuvre. The current goal is to stabilise UK emissions by 2005 at the 1990 levels. However, the commission is seeking to set an overall EC target for 2000.

The German cabinet will next week raise its target for reductions in CO_2 emissions from 25 per cent to 30 per cent by 2005, according to officials in the Bonn Environment Ministry. The reason is that the former east Germany was an extremely wasteful user of energy and a swift and significant reduction will thus be easy to achieve.

Mr Chris Patten, the environment secretary, will oppose the European Commission on both the overall limit and on its competence to decide such matters. The UK has already made clear that electricity privatisation compels the UK to have a realistic rather than an aspirational or planning target which it might not actually be able to meet.

Mr Patten may also question the commission's stance in the light of its refusal to devote resources to studying "greenhouse gas" emission before the end of 1991 and to include in the overall target any substantial analysis of how it might be achieved.

The commission has failed to bring forward any proposals about CO_2 emissions from vehicles, although it has been pressed to do so by both Germany and the UK for more than a year.

The Luxembourg conference will also discuss directives to ensure cleaner rivers and seas, and safer disposal of dangerous waste.

There are fears that the commission's attitude might sour the second world climate change conference to be held in Geneva a week later, when the aim will be to get countries such as India and China to agree to set targets for stabilisation.

The UK believes that, if some of the more developed EC countries have just avoided setting targets, then the prospect of reaching a more general and effective agreement will be diminished.

Upturn in housing market will be delayed, study says

By Andrew Taylor, Construction Correspondent

A RECOVERY in the depressed UK housing market is unlikely until the latter half of next year according to the London Business School.

When the upturn does arrive, it is expected to be short-lived and modest.

The LBS says that Britain's entry to the exchange-rate mechanism of the European Monetary System should prompt a recovery in house prices from the middle of next year.

It expects annual house price inflation to peak at about 11 per cent before slipping back in 1993 and 1994 to about 7 per cent.

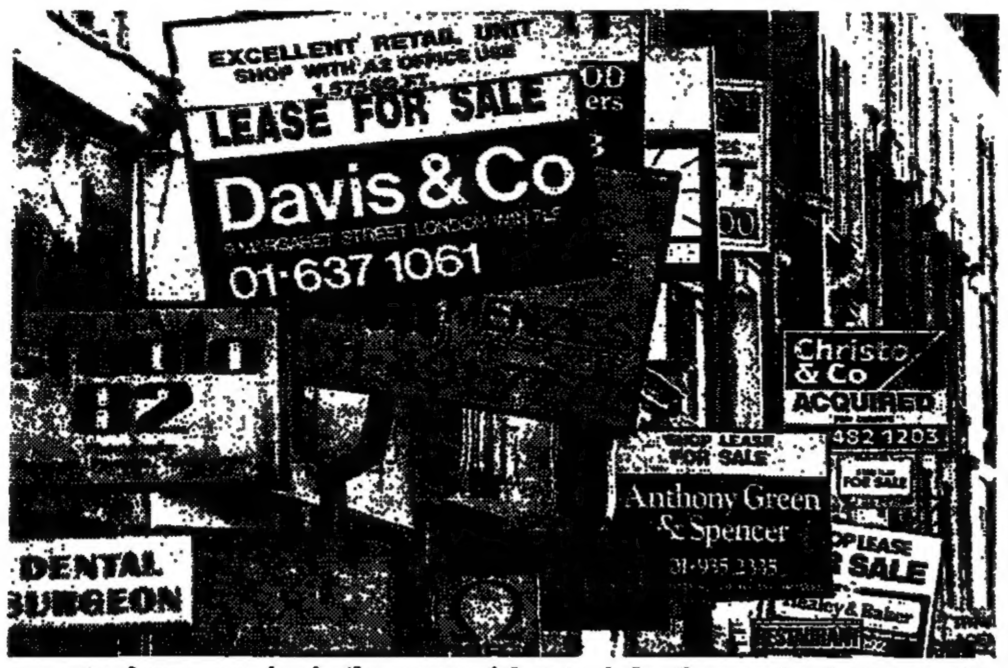
The forecast will bring slight comfort to UK construction companies, which are suffering serious decline in earnings as a result of the recession in the residential and commercial property markets.

The recovery in house prices is expected to be less strong than previously expected. That is because real disposable income is forecast as growing more slowly during 1991 than had been expected.

As a result, investment in new houses is expected to recover only slightly from their present depressed levels, the LBS says.

"The prospects for the UK economy are for a period of only moderate growth, with personal disposable incomes growing by only 1.5 per cent a year from 1990 to 1993 and with interest rates remaining at about 12 per cent. These factors indicate a relatively weak recovery of the housing market."

The LBS says house prices on average fall by 1 per cent during the 12 months to the end of June. It forecasts that the number of homes started by builders in Britain will fall to 141,000 this year from 166,000 in 1989.



Property gloom: recession in the commercial sector is hurting construction companies

Housing starts are expected to increase to 146,000 next year before levelling at between 153,000 and 152,000 in each of the three years after 1991.

Housing starts and investment will remain well below 1980s levels, the LBS says.

Part of the reason for that is the decline in the birth rate since the baby boom of the 1950s and 1960s. Demand for homes from people born in those two decades had pushed up house prices by as much as 20 per cent.

"We believe that this 20 per cent premium on house prices will be unwound during the mid 1990s as the number in the first-time-buyer age group falls. This demographic factor will lead to a weakening of house prices in comparison to personal incomes in the middle of the decade," the LBS says.

"Capital gains on the scale made in the 1980s will not be repeated in the 1990s."

A deep malaise, Page 21

Delays in pension transfer criticised by advice body

By Eric Short, Pensions Correspondent

DELAYS IN handling company pension transfers have been severely criticised by the Occupational Pensions Advisory Service.

Miss Margaret Grainger, chairman of Opas, found fault with company pension administrators who delay handling or transfer of credits under such schemes to employees and former employees. In the Opas annual report, she said concern by individuals over the delays in obtaining a quotation and in transfer of money was one of the main reasons for the record 3,500 inquiries and complaints received by Opas in the year to March 31 1990.

The service handled nearly 3,000 complaints in the preceding year.

Apart from delays, Opas tackled other pension difficulties during the year, including women losing their benefit rights through their husband's pension scheme after a divorce and personal pensions being incorrectly sold. In one case, a pension was sold to an unemployed man.

The report highlights the complexity of pension scheme activities and says nearly half the cases took more than three months to resolve.

Opas was founded in 1984 by Miss Grainger and until now has operated as a voluntary organisation funded by donations, with expert advisers providing free services.

Its financial future is now assured through government funding, but its future role needs to be resolved both in relation to the new Pension Ombudsman scheme and the various complaint procedures operating under the auspices of the Securities and Investments Board (SIB). A Pension Ombudsman has yet to be appointed.

Miss Grainger envisages that an enlarged, properly funded, Opas would provide the first stage in the complaints procedure, and that complaints would be handled by the Pensions Ombudsman system only if that system were to fail.

She also intends to hold talks with SIB, the other self-regulating organisations and the Insurance and Building Society Ombudsmen to designate the respective areas of responsibility for complaints on pensions.

Unionists lay stress on Dublin claims

By our Belfast Correspondent

THE REMOVAL of the Republic of Ireland's constitutional claim to Northern Ireland remains a priority for unionists, according to Mr James Molyneaux, the Ulster Unionist leader.

Addressing his party's annual conference at Newcastle, County Down, on Saturday, Mr Molyneaux said the Dublin Supreme Court ruling on articles 2 and 3 of the Irish constitution earlier this year had handed a "sheaf of death warrants" to the IRA.

The articles set out constitutional claims to the territory of the north. The ruling was significant because it gave the claim legal weight.

Mr Molyneaux said: "The Irish government has at its disposal the means to advance the cause of peace. It would attract much international goodwill if it was to drop that territorial claim in conformity with its being a signatory of the Helsinki Agreement."

The agreement recognises the boundaries of sovereign states.

UK NEWS

Government advised to stop building new prisons

THE GOVERNMENT has been urged to freeze its billion-pound prison building programme.

The Prison Reform Trust said the jail population was starting to fall and many of the new cells could soon be empty.

Resources should be switched to renovating old prison buildings with priority given to installing in-cell sanitation to abolish slopping out, the organisation said.

In evidence to the Commons Home Affairs Committee's inquiry into the building programme, the trust criticised as out of date government forecasts of a 14,000 rise in prison population by 1997.

"While the projections are apparently still used to justify the prison building programme, they have little credibility and appear to have been disowned by ministers," it said.

"Indeed, if the fall in the prison population – a reduction of around 9 per cent since the beginning of 1989 – was to continue, empty places could appear in 1991-92 when more than 5,000 new cell places will come on stream."

Trust director Dr Stephen Shaw described the building scheme as "a profligate waste of public money".

"The present prison building programme is the largest investment in new jails for over 100 years, he said.

"The total bill will exceed £1bn with £300m of planned expenditure on new prisons in the present financial year alone.

"Yet despite this vast expenditure, such have been the Home Office's priorities that many prisoners will still be slopping out from a plastic pot well into the next century."

The trust called the design of the new Belmarsh Prison to be sited at Woolwich, south London, where more than half the inmates will be accommodated in double cells, "a flagrant breach of the European prison rules which will institutionalise compulsory cell-sharing for perhaps the next 150 years".

British Gas raises cost of fixed-price supply contracts

By **David Thomas**, Resources Editor

BRITISH GAS has sharply increased the cost of one of its main types of gas supply contract for business customers as a result of the Gulf crisis.

British Gas, the near-monopoly supplier of gas to UK business, says it has been forced to make the increases to avoid a large, unplanned switch by industrial customers from oil to gas burning.

Some business customers have reacted with fury to the changes, which were introduced last week without publicity or consultation. They have called for an investigation by the Office of Gas Supply the industry's regulatory watchdog.

Industrial and commercial customers have been informed by British Gas of price rises in all new contracts due to take effect from November 1.

The increases, which apply only to customers using more than 25,000 therms a year, affect a particular option whereby business customers can fix the price of supplies for one or two years.

Under the existing contracts, customers must pay a premium of 3 per cent on their bill if they choose a one-year fixed price contract and a premium of 7 per cent for two years.

As from November, premiums for a one-year fixed price contract will go up to 20 per cent and for a two-year contract to 30 per cent.

"The increases are quite outrageous. They are so steep that British Gas is effectively saying it wants none of its customers to choose fixed price contracts," one customer said.

British Gas said the increases were forced by the sharp jump in oil prices and the volatility of the oil markets after Iraq's invasion of Kuwait.

The company has not yet increased its prices directly as a result of the Gulf crisis, since its gas purchase costs tend to lag behind changes in the oil markets by six-18 months.

It argued that a failure to boost its fixed price contracts would result in a sudden and large move from oil to gas by industry.

"That sort of large switch isn't in our interest, since we have made our investment plans on a different basis," a spokesman for British Gas said. The company added that it had called a halt to its advertising and marketing programmes on the last occasion of a such a large, unexpected switch to gas – at the time of the Yom Kippur wa[r]

It also explained that the increases were a p[rec]aution to protect itself agai[n]st future energy price movem[en]ts. "Who is going to protect t[h]e price of oil in a year or two?" it said.

These explanat[io]ns are unlikely to satisfy [th]e industrial customers wh[o] have already complained [t]o Ofgas that British Gas is pr[of]iteering from the Gulf crisis.

Ofgas says it has n[o] powers to intervene in Brit[is]h Gas's contracts with large [b]usiness customers, unless the[y] can be proved to be discrim[ina]tory or an abuse of the co[m]pany's monopoly powers.

● British Gas has been accused of profiteering [f]rom a round of price chang[es] this month, which were desi[gn]ed to end an anomaly whereb[y] some large customers coul[d] save money by deliberately [wa]sting gas.

The Gas Consumers C[o]uncil has told British Gas t[ha]t 33 county councils now fa[ce] an average increase of abo[ut] 12 per cent on their gas bills [a]s a result of these changes. B[rit]ish Gas claims the new rules [w]ill not affect its revenue e[it]her way.

Working from home on increase

By **Fiona Thompson**, Labour Staff

MORE PEOPLE are working from home than in recent years, according to the International Labour Office.

High levels of unemployment in many areas of the world have prompted the increase, says an article in International Labour Review, the office's official journal. The office is the secretariat of the International Labour Organisation.

The effects of trade competition, with increasing pressures to cut costs, have also led to an increase in homeworkers as companies decentralise production down the chains of contractors and middlemen.

The clothing, textile and leather industries are foremost in using homeworkers but they are also common in many manufacturing industries.

In West Germany, the iron, metal, electronic and optical industries have the greatest number of homeworkers, while in Japanese equipment industries they are frequently employed for coil-winding or soldering radio and television parts.

A Council of Europe study shows that women constitute the majority of homeworkers. Women make up 90-95 per cent of homeworkers in West Germany, Italy, Ireland, Greece and the Netherlands; 84 per cent in France, 75 per cent in Spain and 70 per cent in the UK. In Japan, the figure is 93.5 per cent.

In Japan 93.5 per cent of homeworkers are women

Women's predominance is due not only to family responsibilities tying them to the home but also to their weaker position in the labour market, according to the ILO article.

Studies have shown that homeworkers are low-paid and tend to work long hours, which can lead to poor health. Often they agree to work under conditions that present risks for themselves or their families and they are almost always denied access to health benefits or social security.

The International Confederation of Free Trade Unions, emphasising the need to guarantee the basic rights of homeworkers concerning wages, welfare and working conditions, has called for the adoption of international labour standards and for national legislation in all countries where significant numbers of homeworkers are employed.

Adjudication of a concession for the exclusive operation, under a public service regime, of a reception and regasification terminal for liquified natural gas (LNG) and a high pressure transportation pipeline for natural gas (NG) between Setúbal and Braga and the construction of their respective infrastructures.

NOTIFICATION OF A PUBLIC CALL FOR TENDER

1. Under a government order issued by the Minister of Industry and Energy, published in the Diário da República (Official Portuguese Government Gazette) number 222, II series, of the 23rd of September (2nd supplement), under the terms of article 2 of Decree Law number 285/90 of the 18th of September, and under the terms of the bases thereto annexed and Decree Law number 284/90 of the 18th of September, a public tender is hereby issued for the adjudication of an exclusive concession for the operation, under a public service regime, of a reception and regasification terminal for liquified natural gas (LNG) and a high pressure gas transportation pipeline for natural gas (NG) between Setúbal and Braga, hereinafter referred to in an abbreviated form as LNG Terminal and Gas Pipeline and the construction of their respective infrastructures.

2. The tender will be the responsibility of the Director General for Energy under the terms of the delegated powers granted to him by the government order referred to in the preceeding number.

3. From the date of publication of this notification in the Diário da República, the tender documents will be available for inspection by interested parties, at the head offices of the *Directorate General for energy in Lisbon* where they can be examined during normal office hours until the day before the eve of the public tender opening ceremony.

4. The component parts of the tender are set out in the respective general index and interested parties may, by submitting a written application to the Directorate General for Energy, before the 9th of November 1990, obtain authenticated copies of the same which will be delivered on payment of 250.000$00 (two hundred and fifty thousand Portuguese escudos) either in cash or by cheque.

5. *Companies which are established* in any Member State of the European Economic Community and which possess technical and management expertise within the field of operations which are the object of the concession and wich have the financial capacity to comply with the obligations imposed under the *concession may compete either individually* or in a consortium.

6. For the purpose of guaranteeing the maintainance of the commitment taken on with the production of the proposal and the obligations imposed under the tender, competitors must provide a guarantee of one thousand million escudos payable either in cash or securities issued or guaranteed by the Portuguese State or by means of a bank or insurance guarantee payable to the Directorate General for Energy.

7. Bids must be delivered by hand at the Head Offices of the Directorate General for Energy in Lisbon against the issue of a receipt before 5 p.m. on the 7th of February 1991, drawn up in Portuguese and accompanied by eight copies and, in addition, two translations in English with the original always taking preference over the translations.

8. Bids must be valid for a period of 240 days, commencing from the public tender opening ceremony after which the obligation, in the case of those competitors who do not receive a notification of having been awarded the concession, of maintaining the respective bids, ceases. This period is considered to be automatically extended by the tacit agreement of those competitors who fail to make application to the contrary for a further period of 120 days.

9. The public tender opening ceremony will be held at the head offices of the Directorate General for Energy in Lisbon and will take place at approximately 10 a.m. on the 9th of February 1991.

10. A maximum number of only three individuals per competitor may be present at the public tender opening ceremony and must be duly accredited for the purpose of repreting the company at the ceremony.

11. The appraisal criterion for the bids for the purposes of adjudication will be that of the best guarantee of satisfaction of public interest with the following items (not in order of priority) constituting preferential factors:
- Technical and economic quality of the project plan;
- Degree of compliance with the financial requirements of the tender;
- Solutions put forward for guaranteeing the supply of gas;
- Planning schedule for project completion with the specification of the date forecast for the start up of operations of the LNG Terminal and Pipeline;
- Measures proposed for the minimising of the project's eventual negative effects on the environment;
- Proposed time limit for the exclusively of supply by the concessionaire.

12. The notification for publication in the Official Journal of the European Communities was sent on the 25th of September 1990.

Minister of Industry and Energy
Directorate General for Energy
Rua da Horta Seca, 15 Telef.: 346 30 91 – Fax: 346 98 16 – Telex: 52660
1200 LISBOA – PORTUGAL

THE WEEK AHEAD

ECONOMICS

Transatlantic concerns now focus on recession

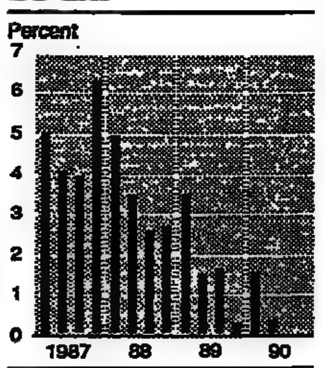
THE dreaded R-word – recession – will dominate discussion about economic conditions on both sides of the Atlantic this week.

Tomorrow, in a week full of US data, the administration publishes its first estimate of third quarter gross national product at a time when many commentators are convinced that the economy is already in recession.

The GNP second quarter figures were revised downwards sharply last month from a 1.2 per cent annualised advance to a minimal 0.4 per cent growth rate. Analysts polled by MMS International, the finance research company, have produced widely differing third quarter GNP forecasts ranging from a 1 per cent annualised fall to a 2 per cent rise. The consensus figure is for a 0.8 per cent rise, but this could reflect expectations of inventory accumulation rather than underlying strength.

A more up to date measure of the US business mood will come with October's national Association of Purchasing Managers' index on Thursday. A drop in the index is held to indicate falling activity and the MMS consensus suggests that the October figure should be 43.5 per cent against 44.4 per cent the month before. October's US employment data on Friday will provide the markets with a further insight into US activity. The MMS consensus figure envisages a civilian unemployment rate of 5.8 per cent, up from September's 5.7 per cent.

US GNP



In Britain, the week's main event will be tomorrow's quarterly industrial trends survey from the Confederation of British Industry. The CBI survey is highly regarded by the Government as an economic indicator and will be watched all the more closely since Mr John Major, the Chancellor, admitted last week that a shallow UK recession was "conceivable" in the second half of this year. The state of the nation's industry will be debated further at the CBI annual conference in Glasgow that starts next Sunday.

The week promises to be quiet in continental Europe, although the German government will outline its 1991 budget on Wednesday and the Bundesbank's policy-making central council holds a regular fortnightly meeting on Thursday.

Other events and statistics, with median market forecasts by MMS International, the finance research company, include:

Today: UK, final money supply statistics for September, 3rd quarter Bank of England home loans figures. US, third quarter housing advances. Germany, provisional cost of living figures.

Tomorrow: US, 3rd quarter GNP deflator (5 per cent), September new home sales. UK, September new vehicle registrations. Japan, September unemployment.

Wednesday: US, Federal Reserve beige book, September factory goods orders (up 0.2 per cent), personal income (up 0.5 per cent), consumers expenditure (up 0.8 per cent). Canada, August real GDP at factor cost (minus 0.3 per cent), September industrial producer price index (0.8 per cent). Japan, September housing starts (down 0.3 per cent on year). UK, National Economic Development Council meets.

Thursday: US, September construction spending, weekly money supply figures.

Friday: US, October non-farm payrolls (down 22,000), payrolls ex-census (flat), manufacturing payrolls (down 35,000), hourly earnings (up 0.3 per cent), September leading indicators (down 0.9 per cent). Japan, September current account. UK, October official reserves, September housing starts and completions. Australia, September current account (seasonally adjusted minus A$1.17bn).

Peter Norman

UK COMPANIES

Market wary of M and S prospects

WEDNESDAY brings the interim results of Marks and Spencer, the high street clothing and food retailer. Worries that the company will warn of softer sales have prompted weakness in its share price recently.

As far as the figures for the half-year to end-September go, analysts expect an increase in pre-tax profits to £225m-230m, from £208.7m. Better systems will have minimised the damage caused by difficult conditions on the high street in the UK. But profits from the US Brooks Brothers men's outfitting business are likely to be down, being hit by the price war between US department stores.

Also on Wednesday in a very quiet week for results, Fenner, the power transmission and conveyor belting company, is expected to announce an increase in pre-tax profits for the year ended August 30 to around £16m from £13.3m a year earlier. But growth in earnings per share will be around 5 per cent because of a rights issue.

The issue was meant to finance expansion in Europe but with the money largely unspent so far, interest will have helped bump up pre-tax profits.

In its transmission belt business, the outlook is stable-at-best. Growth will be hard to achieve in Europe and the buoyant South African market is well supplied by local products. At home, British Coal is closing pits and demand for coal is slackening.

UK COMPANIES

■ TODAY
COMPANY MEETINGS:
Armour Trust, 100 Liverpool St., 10.00
Gold Greenlees Trott, The Athenaeum Hotel, 116 Piccadilly, W., 11.00
BOARD MEETINGS:
Finals:
Lowland Inv.
Interims:
Blacks Leisure
Channel Tunnel Invs.
Lendu Hldgs.

■ TOMORROW
COMPANY MEETINGS:
Aitken Hume Intl., Honourable Artillery Co., City Rd., E.C., 3.00
St. David's Inv. Trust, Queen's Chambers, 2 North St., Newport, Gwent, 12.00
Welsh Industrial Inv. Trust, 36 Elder St., E.C., 10.00
BOARD MEETINGS:
Finals:
Anglo Park
Barrett (Henry)
Ensign Trust
Low (William)
VTR
Interims:
Drayton English & Intl.
Futura Hldgs.
Jackson Group
Powerscreen Intl.
Reed Intl.
Thames Water

■ WEDNESDAY OCTOBER 31
COMPANY MEETINGS:
Lincat, Head Office, Station Rd., North Hykeham, Lincoln, 10.30
BOARD MEETINGS:
Finals:
Bett Bros.
Fenner
Honeysuckle
Interims:
Aran Energy
Atlantic Resources
Bertam Hldgs.
Blackland Oil
British Borneo Petroleum
Centreway Trust
Cullen's Hldgs.
JMP
Marks & Spencer
Mezzanine Cap. & Inc. Tst. 2001
Ralston Inv. Tst.
Rowe Evans Invs.
Shiloh
Tullow Oil
Westerly

■ THURSDAY NOVEMBER 1
COMPANY MEETINGS:
Bryant Group, Cranmore House, Cranmore Boulevard, Solihull, W.Midlands, 12.15
Dowding & Mills, 75 Harborne Rd., Birmingham, 12.00
BOARD MEETINGS:
Finals:
Dale Simpson
Kalamazoo
MMT Computing
Smart (J.)
Stanhope Properties
Interims:
BDA Hldgs.
Burtonwood Brewery
Leigh Interests
Monarch Resources
Westbury

■ FRIDAY NOVEMBER 2
COMPANY MEETINGS:
MAI, Glaziers Hall, 9 Montague Close, S.E., 12.00
Ricardo, Royal Aeronautical Society, Hamilton Place, E.C., 12.00
BOARD MEETINGS:
Interims:
London & Edinburgh Trust
Prowting
Upton & Southern Hldgs.

Company meetings are annual general meetings unless otherwise stated.

DIVIDEND & INTEREST PAYMENTS

■ TODAY
Alba 1.75p
Bank of Nova Scotia 25cts.
Barr & Wallace Arnold Tst. 3p
Do. "A" NV 3p
Bredero Props. 1.2p
Canadian Pacific 23cts.
Davis (Godfrey) 2.73p
First Spanish Inv. Tst. 0.86
Goodhead 3.75p
Hambro Countrywide 0.05p
Instituto De Creditio Official Gtd. Fltg. Rate Nts. 1992 $448.37
London Forfaiting 2.625p
Mandarin Intl. 14cts.
Nichols (J.N.) (Vimto) 4.3p
Nurdin & Peacock 1.87p
Sutcliffe,Speakman 2p
Tamaris 8½% Cnv. Red Prf. 2003 8.5p
Texas Instruments 18cts.
Tyne Tees Television 6p

■ TOMORROW
Bankers Inv. Tst. 10½% Deb. Stk. 2016 5.25pc.
Courtaulds Textiles 4p
Cowan de Groot 10½% Prf. 5.25p
Dow Chemical 65cts.
Great Western Financial Corp. Var. Rate Nts. 1993 $214.05
Johnson, Matthey 8½% Mtg. Deb. Stk. 85/95 4.25pc.
Kansai Intl. Airport 9% Gtd. Bds. 1996 4.5pc.
MTL Instruments 1.2p
Nestor-BNA 1.15p
Northern Rock Bldg. Society Fltg. Rate Nts. 1992 £189.83
Severfield-Reeve 1p
Steetley 4½% Prf. 1.575p

■ WEDNESDAY OCTOBER 31
Alexon 5% Prf. 1.75p
Amber Day 10½% Prf. 99/2002 5.25p
Arcadian Intl. 8% Uns. Ln. Stk. 89/94 4pc.
Arley 11% Prf. 5.5p
Armour Tst. 10½% Uns. Ln. Stk. 91/96 5.25pc.
Associated Fisheries 1p
Attwoods (Finance) NV 8½% Gtd. Red Cnv. Prf. 4.25pc.
Baldwin 1.4p
Baltic 1.83p
Bank of Montreal Fltg. Rate Debs. Sers. 9 1999 $210.03
Bateys 10% Prf. 5p
Blacks Leisure 10% Prf. 5p
Blackwood Hodge 4.7% Prf. 2.35p
Blundell-Permoglaze 7¼% Uns. Ln. Stk. 90/95 3.625pc.
British-American Tobacco 6% 2nd Prf. Stk. 2.1p
Brixton Estate 6¼% 1st Mtg. Deb. Stk. 86/91 3.125pc.
Burman Castrol 8% Prf. 2.8p
Do. 6% 1st Prf. Stk. 2.1p
Do. 6% 2nd Prf. Stk. 2.1p
Do. 7¼% Red Prf. 2.5375p
Campbell Soup 25cts.
Cannon Street Invs. 3.3p
Capital & Counties 5¾% Cnv. Prf. 2.875p
Chemring Cnv. Red. Pfd 3p
Do. 4.9% Prf. 2.45p
Citicorp Banking Corp. Gtd. Fltg. Rate Sub. Nts. 10/96 $210.83
Do. Gtd. Fltg. Rate Sub. Cap. Nts. 1/97 $210.83
Clyde Petroleum 0.6p
Cookson 1.225p
Dairy Farm Intl. 1.35cts.
Dartmoor Inv. Tst. 2.25p
Dean & Bowes 2.75p
Dundee & London Inv. Tst. 5% Prf. Stk. 1.75p
ERF 10% Prf. 5p
El Oro Mining & Exploration 12p
Electron House 3.1p
Ellis & Everard 7¼% Deb. Stk. 87/92 3.625pc.
Estates Property Inv. 10% 1st Mtg. Deb. Stk. 2011 5pc.
Do. 7¾% Uns. Ln. Stk. 89/92 3.875pc.
Emess & General 6% Cnv. Red Prf. 3p
Evans of Leeds 11% 1st Mtg. Deb. Stk. 2025 5.5pc.
Exploration Co. 6p
Finlay Packaging 0.75p
First Leisure 1.55p
First Natl. Fin. Corp. 10% Sub. Uns. Ln. Stk. 1992 5pc.
Fitch RS 1.5p
Foreign & Col. Inv. Tst. 7% Uns. Ln. Stk. 88/93 3.5pc.
Gartmore Value Invs. 12.34% Deb. Stk. 1995 6.17pc.
Gold Greenlees Trott 5p
Guildhall Property 6% Prf. 2.1p
Heavitree Brewery 11½% Prf. 5.75p
Howden Grp. 8¼% Deb. Stk. 89/91 4.125pc.
Do. 7¾% Deb. Stk. 86-91 3.875pc.
Huntleigh Technology 1.25p
Ingham (George) 1p
Jackson (Wm.) 7½% Prf. 2.625p
Kingfisher 8½% Cnv. Uns. Ln. Stk. 2000 4.25pc.
LASMO Oil Prod. Stk. 11.7267p
Land Securities 7¼% 1st Mtg. Deb. Stk. 91/96 3.625pc.
Do. 6% 1st Mtg. Deb. Stk. 88/93 3pc.
Latham (James) 8% Prf. 4p
Lister 1p
London American Ventures Tst. 3½% Deb. Stk. Red 1.75pc.
Do. 4% Deb. Stk. Red 2pc.
London Merchant Securities 7¾% Cnv. Uns. Ln. Stk. 2000/05 3.875pc.
Lowe (Robt. H) 6½% 1st Prf. 2.275p
Do. 8.75% Cnv Red Prf. 4.375p
Lowe's Companies 13cts.
MB Group 2.75p
Macanie (London) 7¾% Uns. Ln. Stk. 86/91 3.875pc.
Do. 7½% Uns. Ln. Stk. 86/91 3.75pc.
Marley 2.1p
Mayborn 1.3p
Mayne Nickless 20cts.
McAlpine (Alfred) 9% Prf. 4.5p
Menzies (John) 5.75p
New Zealand Inv. Tst. 1.2p
Newarthill 6.775% Prf. 3.3875p
Norbain Electronics 0.7p
Oliver 1.07p
Do. "A" NV 1.07p
PHH Corp. 30cts
Peel Hldgs. 10% Prf. 2.6p
Portsmouth & Sunderland Newspapers 8% Prf. 2.872p
Do. 11.5% 2nd Prf. 5.431p
Proudfoot (Alexander) 6p
Racal Electronics 7% Cnv. Uns. Ln. Stk. 09/14 3.5pc.
Record Hldgs. 1.15p
Royal Bank of Canada Fltg. Rate Debs. 2005 $78.49
SCE Corp. 68cts.
Scottish Inv. Tst. 4% Perp Deb. Stk. 2pc.
Do. 4¼% Perp. Deb. Stk. 2.125pc.
Do. 5% Perp. Deb. Stk. 2.5pc.
Scottish & Newcastle Brews 4.6% Prf. 2.3p
Do. 6.425% Prf. 3.2125p
Do. 7.6% 1st Mtg. Deb. Stk. 89/94 3.8pc.
Seagram Distillers 12⅜% Deb. Stk. 2012 6.1875pc.
Sharpe & Fisher 1.5p
Shaw Carpets 8½% Deb. Stk. 89/93 4.25pc.
Shires Inv. 3.8p
St. Davids Inv. Tst. 8.8p
TR City of London Tst. 10¼% Deb. Stk. 2020 5.125pc.
TR High Income Tst. 1.4p
Tharsis 3p
Tilbury 10.5p
Torday & Carlisle 2.3p
Toronto-Dominion Bank 18cts.
Travis Perkins 2.6p
Triplevest 11.18p
Trusthouse Forte 10.5% Mtg. Deb. Stk. 91/96 5.25pc.
Do. 7.25% 1st Mtg. Deb. Stk. 86/91 3.625pc.
Do. 6.25% 1st Mtg. Deb. Stk. 85/90 3.125pc.
Do. 9.1% Uns. Ln. Stk. 95/2000 4.55pc.
Try 2p
USF & G Corp. 73cts.
Ultramar 3.5p
Wembley 0.8p
Western Mining Corp. Hldgs. 17cts.
Wyndham 4p
York Tst. 8.5% Cnv. Prf. 5.379452p

■ THURSDAY NOVEMBER 1
AMEC 6.5% Cnv. Prf. 3.25pc.
APV 3.15% Prf. 1.575p
Do. 4.55% Prf. 2.275p
Do. 5.25% Prf. 2.625p
Aitken Hume Intl. 1p
American Info. Tech. 79cts.
American Tel. & Telegraph 33cts
Asda Property 0.8p
Astec (BSR) 0.7p
Bardon 5% Cnv. Red Prf. 2.5p
Bell Atlantic 59cts.
Bellsouth 67cts.
Bristol Corp. 3½% Deb. Stk. 1.75pc.
Bunzl 2.6p
Dowding & Mills 1.7p
Dublin Ports & Docks Board 4% Red Stk. 75/95 1.75pc
Dunedin Worldwide Inv. Tst 3½% Prf. 1.75pc.
Exchequer 3% Gas Stk. 1.5pc.
F. & C. Pacific Inv. Tst. 0.55p
Gentinance 11.31% Ln. Stk. 2007 5.655pc.
Do. 11.31% Ln. Stk. 2007 5.655pc.
Glaxo 7¾% Uns. Ln. Stk. 85/95 3.875pc.
Inv. Tst. of Guernsey 0.56p
King & Shaxson 5% Prf. 1.75p
Lamont Hldgs. 5.6% 2nd Prf. 2.8p
Do. 8% Prf. 1.05p
Do. 10% 3rd Prf. 5p
Lewis (John) Props. 8¼% Mtg. Deb. Stk. 93/98 4.125pc.
Lincoln National 65cts.
London Securities 1p
MMI 0.25p
Marks & Spencer 10% Prf. 3.5p
Marshalls 10% Prf. 5p
Merchants Tst. 4% Perp. Deb. Stk. 2pc.
Mersey Docks & Harbour 1.7p
Pacific Telesis 50.5cts.
Parkland Textile 1.575p
Pentland 0.3125p
Pentos 4½% Prf. 1.575p
Property Co. of London 2p
Reading Corp. 3½% Stk. 1978 1.75pc.
Scottish Inv. Tst. 3.85% Pfd. Stk. 1.925p
Do. 3.5% Pfd. Stk. 1.75p
Do. 4.55% "A" Prf Stk. 2.275p
Shoalbank Prop Tst. 7½% Prf. 2.625p
Do. 6% Cnv Prf. 3p
Singer & Friedlander 1p
Stewart & Wight 90p
Systems Reliability 1p
Torchmark 35cts
Trade Indemnity 0.9p
Treasury 6¾% Ln. 95/98 3.375pc.
Trietus 20% Prf. 1.75p
Union Intl. 7% Prf. Stk 2.45p
Varity Hldgs. 7½% Deb. Stk. 87/92 3.75pc.
Watney, Mann & Truman 7⅛% Red Deb. Stk. 87/92 3.5625pc.
Whitbread 4½% 1st Prf. Stk. 1.575p
Do. 6% 3rd Prf. Stk. 2.1p
Do. 7% 3rd Prf. Stk. 2.45p
Wilkes (James) 4.5p
Williers 0.65p
Young & Co's Brewery 7¼% 1st Mtg. Deb. Stk. 86/91 3.625pc.

■ FRIDAY NOVEMBER 2
ASW 4.5p
Anglo American Gold Inv. 400cts.
Baynes (Charles) 0.4p
Bowater 9.5p
Christies Intl. 2.3p
Copymore 0.8p
Fisher (James) 2p
Hall Engineering 3.3p
Herring Son & Daw 3p
Joe Hldgs. 3.925p
Kingfisher 3.8p
Kleinwort Smaller Co's Inv. Tst. 1.35p
Lincat 3.3p
Noble Raredon 0.1p
Pearson 10.75p
Plasmec 1.8p
P-E Intl. 2p
Sema 0.9p
Sumit 2p
Teltos 3.6p
Waterman Partnership 4p
Willis Corroon 6.9p

■ SATURDAY NOVEMBER 3
Cornwell Parker 3.8p
Do. "A" NV 3.8p
Treasury 15¼% Ln. 1996 7.625pc.

PARLIAMENTARY DIARY

■ TODAY
Commons: Lords amendments to the Environmental Protection Bill.
Lords: Debate on the European Community Committee on Air Traffic Control on Civil Aviation in a free market. Question to government on the role of the Council of Europe in the construction of a wider Europe.

■ TOMORROW
Commons: Lords amendments to the Environmental Protection Bill.
Lords: Broadcasting Bill, consideration of Commons amendments. Caldey Island Bill, second reading and remaining stages. Motion on the British Nationality (Hong Kong) Selection Scheme Order 1990.
Select committee: Televising of Commons proceedings – subject, assistance for the deaf. Witnesses: Royal National Institute for the Deaf, British Deaf Association, Deaf Broadcasting Council and the broadcasting companies (Room 15, 5pm).

■ WEDNESDAY
Commons: Debate on noise abatement and the environment.
Lords: Environmental Protection Bill, Commons amendments.
Select committees:
Environment – subject, environmental effects of the destruction of the rain forests. Witnesses: Friends of the Earth and the World Wide Fund for Nature (Room 15, 10.30am).
Public Accounts – subject, Herstmonceux Castle. Witnesses: Mr J. Caines, Department of Education and Science and Sir Mark Richmond, Science and Engineering Research Council (Room 15, 4.15pm).
Transport - subject, urban public transport, the light rail option. Witnesses: GEC Althsom Transportation Products and British Rail Engineering (Room 8, 4.15pm).

THURSDAY
Both Houses will meet for prorogation.

LEGAL NOTICE

Weldspares Limited

(In Administrative Receivership)

Registered Number - 987186
Nature of business - Welding Spares Distribution
Trade classification - 15
Date of appointment of Administrative Receiver(s) 12 October, 1990
Name of person appointing the Administrative Receiver(s) - D.Q. Henriques Limited
Colin George Wiseman and peter Anthony Lawrence
Joint Administrative Receivers
(Office holder no(s) 6172 and 6829) of Booth White,
6 Raleigh House,
Admirals Way,
Waterside, London E14 9SN

The Insolvency Act 1986

In the matter of

CROUCH POLYFILMS LIMITED

Nature of business: Manufacturers and dealers in polyfilms, bags and plastic containers.
Administration order made: 20th September 1990
Administrator: P.A. Lawrence

APPOINTMENTS

Moves at United Precision Industries

■ *UNITED PRECISION* INDUSTRIES, Newark, has appointed **Mr Roy Hammond** as group manufacturing director. He will relinquish his post as managing director of RHP's industrial bearings division, but will continue to *oversee the group's* engineering function until a director is appointed. He is succeeded at industrial bearings by **Mr Paul Stevenson** and **Mr Peter Wheeldon** as joint managing directors, with responsibility for supply and *marketing respectively. Mr* Wheeldon will also be responsible for RHP's international division. **Mr Bill Constance** has been appointed deputy managing director of NSK-Europe responsible for sales and marketing. **Mr *Richard Knowler* becomes** company secretary of UPI. **Mr John McAndrew** is made finance director of RHP's industrial bearings division. **Mr Tom Fremantle** has been appointed general manager, linear bearings, RHP's *precision division. UPI is a* subsidiary of NSK Japan.

GIROBANK, a subsidiary of *Alliance & Leicester Building* Society, has appointed Mr Lewis J. Evans *(pictured)* as a deputy managing director. He was head of UK commercial banking, Lloyds Bank, and a director of Lloyds Development Capital, International Factors, and Alex Lawrie.

■ Mr Roger K. White has been appointed sales director of SEAC, a Halma Group subsidiary specialising in custom fasteners.

ELECTRON HOUSE has appointed Mr Simon Stock *(pictured)* as group finance director from November 1. He has been a UK corporate *development executive at* Hanson, and commercial director of the United Comunications Group, part of MAI. Mr Stock succeeds Mr Timothy Redburn who has left to pursue other business interests.

■ **Mr J. Michael Middlemas** has joined the board of BARBICAN HOLDINGS as a non-executive director. He is a former senior partner of Touche Ross & Co.

Mr Roy Foster *(pictured)* has been appointed managing director of the European arm of UNITED STATES FLEET *LEASING, a subsidiary of* United States Leasing Inc, San Mateo, California, part of the Ford Financial Services Group. Mr Foster was marketing and sales director for Avis Europe Lease.

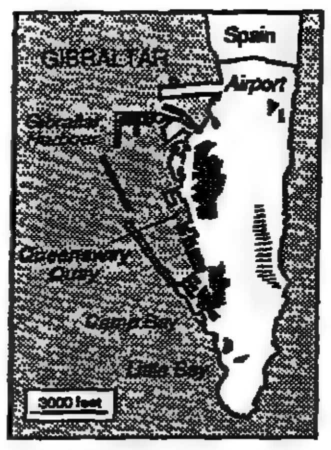
■ ***Mr David Harrison*, Mr Mike Williams, and Mr Stephen** White have been appointed directors of TMD ADVERTISING HOLDINGS.

CONSTRUCTION CONTRACTS

Development in Gibraltar

TAYLOR WOODROW INTERNATIONAL, in joint venture with the government of Gibraltar, is to develop a *residential, commercial* and marina centre, valued at over £90m, in Gibraltar's old harbour. The project, to be known as Queensway Quay, is set to start soon.

Close to Gibraltar's city centre and 10 minutes drive from the *international* airport, Queensway Quay will cover some 23 acres on the Rock's west coast. It will have apartments, marina, hotel and leisure amenities, offices, restaurants and shops.



Phase one consists of more than 120 apartments set beside extensive pedestrian areas overlooking the marina. The apartments will consist of a mix of one to four bedrooms, to be sold on long leases.

The complex will incorporate three private leisure decks at first floor level, two with swimming pools. Extensive internal parking facilities are also included.

A series of retail units integrated into the structure at ground level will offer over 2,000 sq metres of floor space fronting the pedestrianised quayside.

London Underwriting Centre

LAING LONDON has been awarded a £38.8m contract for the fitting out of the London *Underwriting Centre at 3 Min*ster Court in the City of London.

The London Underwriting Centre, acting as agents on behalf of The Royal Bank of Scotland, awarded the building contract.

The contract involves an extensive package of internal work to make the 260,000 sq ft of offices habitable for upwards of 100 insurance company ten*ants who will occupy the build*ing.

One of the first tasks will be to alter the steelwork to allow 16 escalators to be suspended in the centre of the atrium.

They will provide access from the ground to the seventh floors of the nine-storey building.

Other work will include creating dining and kitchen areas on the mezzanine level and installing suspended ceilings, raised floors, carpets, partitioning and glazing.

New offices for Manchester city centre and living accommodation at Risley remand centre are among £14.8m worth of orders won by Laing North West.

The largest is an £8.3m contract awarded by GRE Properties for a development in John Dalton Street which will involve demolition of a nine-storey block.

The 25 year-old building will be replaced with modern air conditioned offices on five *storeys with parking at base*ment and sub basement level.

The development, due for completion in July 1992, will have a reinforced concrete frame clad with brick and natural stone.

The Home Office has awarded a £5.5m contract for a three-storey living block containing 168 cells at Risley remand centre.

At Blackpool, the Department of Social Security has awarded a design and construct contract, valued at £495,000, for the conversion of a stationery store at Clarke House, Norcross, into offices.

Wilcon wins warehouse-office orders

WILCON CONSTRUCTION, a member of Wilson (Connolly) *Holdings, has secured con*tracts worth in excess of £15.6m.

Heading the list is a £5.9m contract for two warehouses with offices attached in Huntingdon, on behalf of Vanbrugh Land.

*A £5m project to build ware*house and office facilities in Northampton will be undertaken for Legal and General Property.

Other work includes a £2.6m order to build campus residential accommodation for Nene College Higher Education Corporation in Northampton and a £2.1m scheme for business units in the Beckenham Metro Centre for Midas International Properties.

Building factory units at Livingstone

M.J. GLEESON GROUP has secured a clutch of factory, housing and water contracts in Scotland and northern England worth over £8m.

At Livingstone, Gleeson is to construct advanced factory units on three sites at a cost of £2.54m for the Development Corporation.

Meanwhile, Gleeson has commenced building work on 52 houses and flats, valued at £2.33m, in Sheffield for United Kingdom Housing Trust; and at RAF Dishforth, Yorkshire, 50 homes worth over £1m will be constructed for the Property Services Agency.

In Northumberland, Gleeson is to undertake the £1.5m refurbishment of houses and flats for Newcastle upon Tyne City Council plus additional works worth £877,000 for Newcastle & Gateshead Water Company at Whittle Dene water treatment works – where the group is already progressing a £5.35m redevelopment scheme.

Facilities for London University

J. JARVIS & SONS has started work on a £4.2m advanced centre for biochemical engineering for University College, London

The single-storey reinforced concrete semi-basement building measuring 32 metres by 28 metres will have a mezzanine floor and a landscaped roof. Part of a £12m phased project, the contract will eventually link with the basement of a *five-storey building* to be constructed in phase two.

J. Jarvis & Sons will also commence work shortly on the £1.3m first phase of a development in London's Camden High Street, comprising single-storey retail premises for International Caledonian Estates.

£16m corporate headquarters

ALFRED McALPINE MANAGEMENT has won contracts worth a total of £26.8m.

The largest is a £16m design and build contract, awarded by Capital & Counties, for a *125,000 sq ft corporate head*quarters building at Borehamwood, Hertfordshire. "Imperial Place", as the development will be known, comprises three interlinked buildings of four, five and six storeys, together with secure parking for 500 cars. The project is due for completion by June 1992.

Alfred McAlpine has been awarded a £10.2m design and build contract by Tesco to construct a superstore on Lancaster Way, Bishops Park, Bishops Stortford. The store will provide 40,000 sq ft main retail area, petrol filling station, community centre, public house, three shop units and a 578 space car park. The project is due for completion by February 1991.

The company is to fit-out the Chester office of the Bank of Scotland at £660,000.

MANAGEMENT

Poised to exploit polyglot talents

A Viennese legal firm aims to help companies bridge the cultural divide between west and east Europe. Judy Dempsey reports

"I remember when my father used to take his business colleagues to the frontier. All of a sudden, without warning, the road stopped. Then they saw the high barbed-wire fences. I hated that world. I did not go there. I hated those borders."

Those borders and those dark days are finally over for Michael Goriany, the joint partner of Goriany, Jakobljevich & Partner, one of Vienna's largest law firms.

The offices, located on the fourth floor of an elegant 19th century building in the centre of the capital, is now a hub of activity. And no wonder; the opening up of eastern Europe is giving the law firm opportunities to exploit its talents.

"First and foremost, all the reforms, especially privatisation, require communication. I do not mean knowledge of the languages. I mean understanding the mentality of the people emerging from four decades of communist rule."

Goriany believes that the kind of knowledge of, and demands made by, his western clients, are simply "too sophisticated. They have the technology, the information, the know-how at their finger-tips. Their east European counterparts have had none of these instruments, neither in the past, nor even today."

This is where his firm's strengths come into their own. "As lawyers, it is our task to reduce that sophistication. Sometimes, it requires going over the same contract five times as a means of bridging the two worlds. Each side must understand how both perceive the text, the terms, the conditions."

For various reasons, Goriany and his colleagues – Croats and Hungarians, Slovaks and Czechs, Austrians and British – are well equipped to fulfil this role.

The firm, which has a staff of 20 – minuscule by British standards but large by Austrian ones – is in the envious position of employing native speakers, not surprising given that almost half the names in Vienna's telephone directory are Czech.

Jakobljevich's family is originally from Croatia. Geza Simonfay, another partner, is from Hungary. They all have relatives and friends in central Europe. Thus, they have inherited from their parents and families the culture of this part of Europe and have imbibed the memories, perceptions and sentiments of the native peoples.

Goriany's father, a Slovene, who was born near Zagreb in Croatia, Yugoslavia, joined the Military Academy in Vienna during the First Austrian Republic which was formed after the collapse of the Hapsburg Empire in 1918.

After the Second World War, Goriany senior remained in Austria, worked at petrol-filling stations, and made his way up to become director of Mobil Oil's operations in Austria. Sometimes he took visiting colleagues to the country's eastern borders. All they could see was barbed-wire and border patrols.

The young Goriany, who was born in Austria in 1944, but who regularly revisits his roots in Croatia, studied law in Vienna, worked for 12 years with, and became a partner of, the law firm, Grohs and Hofer. In 1988, he set up his own office with the aim of opening up contacts with central Europe.

But besides the cultural and geographical links, the countries of central Europe share the same legal tradition with Austria, particularly in aspects of company law.

"Because of the Hapsburg empire, we have a common history and common legal background. What is useful is that Austrian law, which has parallels in Hungary and in Czechoslovakia, is modelled on part of the German legal system – particularly in liability," explains Goriany.

These factors encouraged the firm to seize the first opportunity to open up offices in Bratislava and Prague just six months after the revolution last November which toppled the communists from power. Two years earlier, it had opened an office in Budapest. All the offices employ local staff. And Goriany believes the expansion has clearly paid off.

He recalls how one of his German clients was interested in buying a steel mill near Budapest. Considerable foreign competition was involved. "We mobilised our forces. The Hungarian side of our business, besides providing the languages, provided the inside details about the firm. Vienna provided the legal back-up and the communication.

"We married it all together. We beat the competition. We drew up the contract with the management and signed the purchase deal."

The firm has also won the confidence of the Slovak government. It is now one of the advisors to Angustin Marian Huska, Slovakia's Minister for the Administration and Privatisation of State Property. It is also co-operating with the Institute of Economics at Bratislava on, among other topics, privatisation.

But besides opening offices, providing the languages and the talent for communicating detailed technical information from western European and US clients to clients in eastern Europe, Goriany is acutely sensitive about the base from which his colleagues in the capitals of central Europe must start out.

"Although our legal traditions may be similar, you must remember that Czech lawyers have had no opportunity to practice law for the past 40 years in the sense that they could not deal with foreign law offices. As a result, today, they have no idea how to proceed with contracts. That is one of our tasks: to help them deal with the outside world."

He explains how psychological factors could inhibit such progress and contacts. Even in Hungary, which embarked on economic reforms several years ago, Goriany says that the pervasive fear which characterised communist rule has been replaced by another: fear of the unknown.

"The people do not know what is expected of them. All the rules of the game have changed. Nobody knows what their new role is. It was all cut and dried under the old system. But now, with the market economy, people are beginning to realise that it will be very difficult. That is why we must co-operate with them and build up their confidence."

His office in Vienna conveys this sense of a special relationship with the capitals of eastern Europe. Thanks to the changes in eastern Europe, one of the law assistants commutes by boat every day from Bratislava, the capital of Slovakia, which is only 60 kilometres from Vienna.

Another of his assistants gives Hungarian lessons to one of the British lawyers. It is possible to do business in Budapest in a day. The early train leaves Vienna at 8am, arrives at 11 and returns to Vienna at 9pm. Goriany points out that Vienna is closer to Budapest than to Salzburg.

Yet despite the remarkable changes in eastern Europe, the Austrian public, and indeed the establishment, have been slow to respond positively to the new political atmosphere.

Goriany recalls when earlier this year he was invited to give a lecture in Budapest. "I described the firm as having offices in Vienna and Budapest. A few days later, a committee within the Law *Kammer* (Association) criticised me for advertising the fact that we had an office in Budapest. They said it was unfair competition!" Goriany says by describing his firm in that way, all he had wanted to do was to grant Budapest a similar status to Vienna and inspire confidence among his Hungarian colleagues

"I was furious about the *Kammer's* reaction. I suppose the point is that in Austria, a joyful laziness prevails over the fight for progress. Because we easily accept authority, we are not innovative. We do not criticise or speak out. Titles and bureaucracy stand in the way of change."

But as an optimist, he believes the climate in Vienna is changing. Law firms from other countries in western Europe can now set up in Austria. The pull from the European Community and the integration of the Single Market in 1992 is shaking Austrians out of their lethargy.

Goriany hopes that enthusiasm for the changes taking place in the east will blossom among Austrians. His firm has planted the first seeds.

The elegant offices in Vienna house a staff of Croats, Hungarians, Slovaks, Czechs, Austrians and Britons

Quality in Spain

A step in the right direction

By Marina Specht and James McCarthy

Spain has a quality problem. The cost of defective products and services in an average Spanish company is equivalent to 20 per cent of sales, compared with 5 per cent in west Germany and Japan, according to estimates from Gestion y Control de Calidad (GCC), a Valencia-based quality consulting firm. In the UK it is 10 per cent of GNP.

Poor quality of service is so strongly rooted in Spain that Spaniards have even invented the word *chapuza* to describe the thousands of mistakes made every day through negligence and lack of rigorous application.

Nowhere has *chapuza* gained more international recognition than in tourism, Spain's biggest industry. Spain used to be Europe's holiday playground, offering cheap holidays to masses of foreigners. But it has become expensive. As a result, tourist revenues dropped 8.5 per cent in the first half of 1990 – in June alone they were 22.5 per cent down on last year.

"The main reason for the current crisis is the poor price-quality ratio," admits Ignacio Fuejo, Spain's chief tourism official. Since prices are not going to fall, "the only solution is to improve the quality."

The picture is not all bad. Spain's entry into the EC and the prospect of the single market in 1992 have increased Spanish businessmen's awareness of the quality problem. "A growing number of Spanish companies is currently implementing quality improvement programmes for the first time," says Jose Luis Villa de la Torre, head of the service sector branch of the Spanish Quality Association (AECC).

In Valencia, GCC began earlier this year to hold workshops for the local hotel industry, sponsored by the city's tourism board. The goal is to improve service quality in the hotels of the programme's 200 participants.

"The employees have to be trained to understand the purpose of the systems we're implementing," says Pedro Roque, general manager of GCC. As for the hotel owners, "they have to understand that the goal of a hotel is not only to make money, but to deliver a good service."

Not all efforts, though, seem to be bearing fruit. Banco Bilbao Vizcaya (BBV), the country's biggest private bank, was the first Spanish bank to appoint, in 1986, an ombudsman to arbitrate on customer complaints, and a year earlier established a "quality circle" programme which today comprises some 100 circles made up of 1,000 bank employees.

"They voluntarily meet in small groups to address a quality improvement issue of their own choosing," says Alfonso Herrero, human resources director at BBV. Another 1,000 employees are involved in the bank's "quality committees".

Despite these efforts, "the quality of service at BBV has declined dramatically since the merger of Banco de Bilbao and Banco de Vizcaya in 1988," maintains Luis Maria Huete, a professor of quality management at the IESE business school in Barcelona.

Little to do with national culture

However, with increasing competition from foreign institutions, Spanish bank clients are beginning to notice that all is not as it should be. The financial services sector is booming, but complaints against financial institutions in 1989 increased by 34 per cent over the previous year, according to a report issued annually by the Bank of Spain. BBV topped the list.

Lance Arrington, president of quality management consultants, Philip Crosby, maintains that the quality picture has little to do with national culture but all to do with bad management. "The Spaniards will simply have to use good management to solve their business problems."

The story of Peugeot Talbot's auto plant in Villaverde, near Madrid, suggests that this is so. Until six years ago, only 12 per cent of the vehicles which left the assembly line were free from defects. Today, between 92 and 98 per cent are free of errors. In addition, customer complaints have dropped by 40 per cent in the past four years.

Peugeot's Spanish plant now exports to France, Italy and the Netherlands.

Unilever's Madrid-based cosmetic subsidiary, Elida Gibbs, also embarks upon a quality-improvement programme this autumn. The company has spotted internal organisation problems in Spain, following its worldwide merger with Cheseborough Pond's in 1987. "Our programme is aimed at solving these problems," says Federico Zwanck, Elida Gibbs general manager. By doing so, the company hopes to cut total costs by 8 to 10 per cent within two to three years.

Many consultants are jumping on the quality bandwagon. International management consultants such as Arthur Andersen and Peat Marwick are intensifying their efforts in the booming market, and smaller consultancies have set up in business; they are all hoping that such events as the Barcelona Summer Olympics or the World Expo in Seville in 1992 will need quality services.

"Most companies in Spain spend 99 per cent of their training budgets on one per cent of their employees - top management," says Martha Williams, co-founder of Par Excellence in Madrid. "Top management needs to realise that a service company's image is made or broken at the front line."

Not only do foreign management consultants believe that Spain has a service quality problem, but so does the Spanish consumer. A recent study by OTR, a local market research firm, reported that almost two-thirds of all Spaniards doubted their national industry's ability to compete in the common market. The most negative evaluation came from the 18 to 29 age group: 69 per cent described the competitive ability of Spanish business as "quite bad" or "very bad".

"For many years this was a seller's market," says Zwanck. "Now there is less demand, so quality must improve." As Spanish consumers become more critical and sophisticated, they are forcing businesses to raise their standards. After all, one way to improve the quality of products and services that you buy is to complain about them.

LEGAL COLUMN

Bar counts cost of changes

By Robert Rice, Legal Correspondent

THE Bar's report on Strategies for the Future, published last week, urges barristers to make further radical changes to the organisation and administration of their chambers to keep the bar independent into the next century.

Taken in the abstract, such exhortations to change, coming so soon after the Mackay reforms, may prove difficult for many barristers to swallow. Many of the detailed recommendations for change (open market rents for chambers, marketing programmes, computerisation and financial support for pupils and junior tenants) look on the surface like involving them in considerable extra expenditure without any immediately obvious benefit.

Statements in the report to the effect that "the costs associated with these changes should not be regarded as expenses, but as an investment in the future which will yield positive returns" are unlikely to carry much weight with a profession made up of independent sole practitioners.

With the aid of Coopers & Lybrand Deloitte, the accountancy firm, the report offers financial models in support of its arguments for change.

At the end of 1988, Coopers carried out a survey of the organisational and economic implications of running 17 sets of chambers chosen to achieve a cross-section of practice, size and location.

Coopers was able to draw up financial models of the average net income before tax of all *junior barristers participating* in the survey and to show how that net income improved in proportion to the degree to which the changes recommended by the report were implemented. QCs were excluded.

The average net income before tax of all survey participants, weighted according to practice area, seniority and location in the same proportions as the Bar as a whole, was £30,000.

If the participants were to practise in chambers with 25 members or more, spend in excess of 75 per cent of their time in one area of law, focus on clients with clearly identifiable needs and locate themselves in provincial centres as close as possible to the source of their work, average net income would rise to £38,000.

Model of Individual Barrister's Income and Expenditure by Practice Area (Based on present cost structure of highest performing chambers in C&LD's survey – excluding QCs.)

Practice Area	Civil £	Crime £	Crime/Civil £	Commercial £	Specialist £	Weighted Average £
Net Income (before tax)	46,400	35,200	30,700	51,800	51,500	38,000
Turnover	75,000	60,000	50,000	80,000	80,000	62,400
Contribution to Chambers' Costs	12,700	10,700	7,800	13,200	13,600	10,500
(as % of turnover)	16.9%	17.8%	15.6%	16.5%	17.0%	16.8%
Personal Practice Expenses	6,000	6,600	5,000	4,000	4,000	5,800
(as % of turnover)	8%	11%	10%	5%	5%	9%
Pensions at 17.5% of turnover less expenses*	9,900	7,500	6,500	11,000	10,900	8,100
Components of Chambers'Costs						
Senior Clerk	3,980	3,190	2,650	4,220	4,230	3,320
Junior Clerk and other staff	2,920	2,340	1,950	3,100	3,110	2,440
Rent	2,420	1,520	1,880	2,450	2,880	1,970
Rates	380	230	270	200	320	290
Floor Area sq ft	[179]	[91]	[115]	[200]	[240]	[134]
Other costs	3,000	3,420	1,070	3,050	3,060	2,480

** Percentage taken at the lowest level, ie for barristers aged 35 or less, after which time, personal pension contributions may be made at a higher percentage, which would produce lower net income before tax.*

Model of Individual Barrister's Income and Expenditure by Practice Area(Based on proposed restructuring – excluding QCs)

Practice Area	Civil £	Crime £	Civil/Crime £	Commercial £	Specialist £	Weighted Average £
Net Income (before tax)	55,100	38,000	33,700	62,000	61,600	42,500
Turnover	91,000	69,000	61,300	97,400	96,900	74,000
Contribution to Chambers' costs	16,900	15,400	14,300	17,400	17,300	15,800
(as % of turnover)	18.6%	22.3%	23.3%	17.9%	17.9%	21.4%
Personal Practice expenses	7,300	7,600	6,100	4,900	4,900	6,700
(as % of turnover)	8%	11%	10%	5%	5%	9%
Pensions at 17.5% of turnover less expenses*	11,700	8,000	7,200	13,100	13,100	9,000
Components of chambers'costs						
Administrative staff	3,440	3,770	3,840	3,880	3,360	3,760
Rent	3,900	2,450	3,000	3,870	4,660	3,180
Rates	430	250	320	440	350	320
Marketing	2,060	510	1,880	2,490	2,200	1,450
Pupils	1,650	2,040	1,970	1,470	1,470	1,920
Junior Tenants	1,330	1,650	1,590	1,180	1,180	1,550
Computerisation	780	970	940	700	700	910
Other costs	3,310	3,760	1,160	3,370	3,380	2,710

**Percentage taken at the lowest level.*

The two tables give a more detailed breakdown of the Coopers financial models.

The first table gives model examples of how an average junior barrister in each of the main practice areas contributes to the costs of running chambers at present. The models are derived from examples of the most efficient chambers in the survey.

The net income figures in the first table assume that the first set of recommended changes relating to increased specialisation and regionalisation have been put into practice.

The second table shows the effects of the recommended changes on barristers' net incomes after taking into account Coopers' tentative estimate of the benefits to income of computerisation, marketing and paying pupils (trainees) and junior tenants.

The net incomes shown in the second table are the sum of some net increases in barristers' costs resulting from the changes proposed to chambers' operating arrangements and the benefits to income that result from the changes.

FINANCIAL TIMES SURVEY

SEYCHELLES

Monday October 29 1990

● The economy needs outside investment if it is to grow further. Page 2

● Tourism's importance cannot be overstated. A new approach, Page 3

An untapped lucrative Economic Exclusion Zone and a harsher economic climate in the 1990s have prompted a thaw towards outside investors by the socialist one-party regime. **Michael Holman** reviews the issues facing both the Seychellois and foreign business

Potential in a paradise

ONE OF the world's most idyllic holiday destinations also has the good fortune to enjoy the barely tapped potential of a 1.3m sq km Exclusive Economic Zone, where the fish harvest is bountiful and which just may include oil in commercial quantities.

After nearly 15 years of ambivalence about the merits of the foreign investor, the government of the Seychelles appears to have decided that it needs more help to realise the potential. Capital, technological know-how and skills are required by a micro-state of only 70,000 residents, nearly all of whom live on the three main islands. Another 112 smaller islands make up the Seychelles archipelago in the western Indian Ocean.

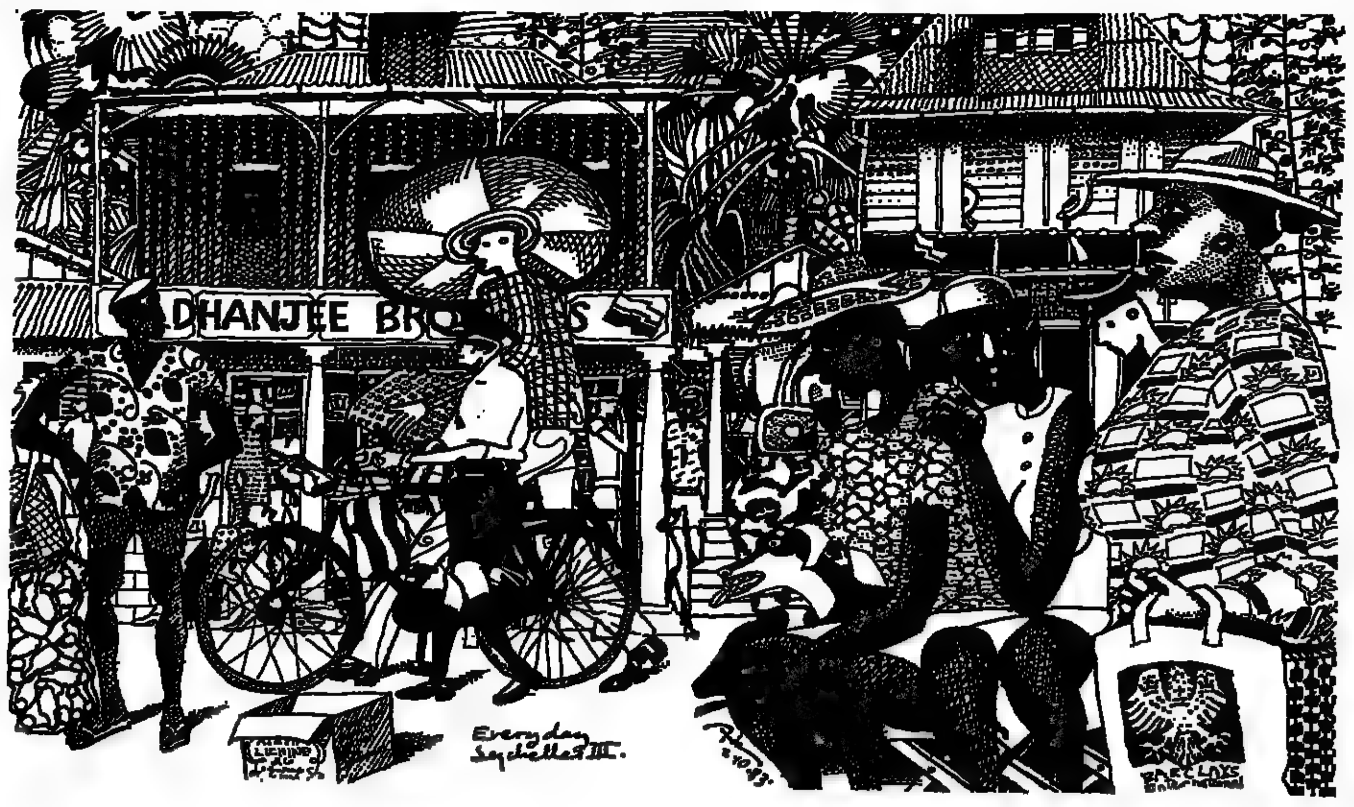
By the end of this year, says Mr James Michel, the minister of finance, the government will have completed its review of an investment incentive code, drafted by the islands' Federation of Employers Association as representatives of the private sector. There are, says Mr Michel, "no substantial differences of opinion" over the draft. If approved by government it could become law in the first half of next year.

Several sectors of the islands' economy would then be more attractive to outside investors: the growing tourist business, where the government intends to reduce or sell off its share in a hotel chain; the expansion of Port Victoria, already providing a thriving bunkerage facility for Indian Ocean fishing vessels, where a dry dock is planned; and the increase of the Seychelles fishing fleet, together with more local processing of the catch.

The oil sector, where a round of exploratory drilling starts next year, is already covered by a model agreement offering joint venture terms.

Whether this vision of the future becomes reality will depend to a great extent on one man: President France Albert René, who has dominated Seychelles' politics since taking power in a coup barely a year after independence in 1977, and who established a one-party state in 1978.

He can rightly claim credit for some considerable economic achievements since independence. But policies which for the most part served the Seychelles well in the first decade now require review, while regional and international developments make his one-party system look increasingly anachronistic.



Impression of the Seychelles: the figures are based on local personalities. Artist Michael Adams has worked here since 1974

In speeches in the course of this year Mr René has continued to wave the banner of one-party socialism. This might well be rhetoric, for economic changes are in fact under way. And only last week Mr René hinted at the possibility of a referendum on the merits of the single-party system.

But the first critical test of the president's willingness fully to implement the reforms that are needed will be the fate of the draft investment code

Apart from being ahead of his time in putting environmental protection policies into effect, Mr René can point to other notable achievements on infant mortality rates and the literacy rate.

Per capita income last year exceeded US$4,000, and annual growth in real terms has averaged around 6 per cent: since 1983 the citizens of the Seychelles have certainly enjoyed a far higher standard of living than any other member of the Organisation of African Unity.

It is not detracting from these achievements to say that they were made when times and circumstances were comparatively easier.

Aid money was more readily available, for example. The Seychelles' very success, set against the demands of impoverished Africa and claims from eastern Europe, makes grants or concessionary finance less forthcoming.

External debt servicing has reached 19 per cent of export earnings, while free education and health services are a growing strain on the budget.

Growth in the tourist sector, the mainstay of the economy, was measured by numbers, now at record levels; today the task is to improve management of the sector, and raise resources for long overdue reinvestment in order to match tough regional competition.

The state-owned corporations – many of which do not publish publicly available accounts – still dominate the economy amid allegations of inefficiency and bureaucracy.

The skills shortage, always acute and exacerbated by emigration, is now a serious constraint on growth.

Critics of President René, who won a third and probably final five-year term in office in mid-year elections in 1989, have yet to be convinced that he has come to terms with the ideological shift that must now be made. The president has shrugged off events in Eastern Europe as of little relevance to the Seychelles. And in a speech last June Mr René said he had no intention of changing the one party system. Defending what is called "the socialist revolution" the president said: "I . . . would prefer to die than abandon our struggle."

By the standards of most "socialist revolutions", the Seychelles' version has been restrained. A foreign policy of non-alignment has not banished a US satellite tracking station on Mahé, the main island, nor visits by British and US navy vessels. The creation of some 30 state-owned corporations in the mid-1980s did not make life impossible for the private sector, although it was demoralising.

The Seychelles People's Progressive Front (SPPF) has conformed to the "socialist revolution" model in one respect, however. Ever since the coup that overthrew President James Mancham, it has exerted its authority with a heavy – though usually not brutal – hand.

Mr Mancham, now in exile, had led the Seychelles Democratic Party (SDP) to a narrow victory in the 1974 general election, winning 21,902 votes to the 19,920 cast for Mr René's Seychelles People's United Party, predecessor to today's sole ruling party. A coalition government led by Mr Mancham as president, with Mr René as prime minister, celebrated independence in 1976.

A year later Mr René's supporters staged a coup while Mr Mancham was attending the Commonwealth Conference.

Debate and opposition was immediately stifled. The government's sense of vulnerability was reinforced when a group of South African mercenaries, pretending to be a rugby club on an outing, launched an unsuccessful coup attempt in November 1981.

The threat from South Africa continued to lurk in the background during a troubled period. An army mutiny in August 1982, several subsequent coup plots, and the assassination in London in November 1985 of an exiled opposition leader did nothing to reduce tensions.

Yet change in Seychelles *is* under way and President René himself has set it in motion.

After last June's elections, he reversed the process which has concentrated power in his hands. He expanded his cabinet from seven to 10 members, surrendering portfolios he previously held himself, including ministry of finance.

At the same time, it became clear that while the party had no intention of loosening its stranglehold on power, officials were prepared to tolerate – indeed, encourage – debate.

The government also gave way on a previously sacrosanct issue. From next year a two-year compulsory and costly youth training programme will be cut to 12 months, and some observers suspect it may be phased out altogether.

In the same mid-year speech in which he re-asserted his commitment to the one-party, socialist state, the president also approved efforts to make the Seychelles a more open society and state-owned institutions more accountable.

"We must be honest with ourselves and change whatever is necessary", he said. Government should listen to "sincere" criticism.

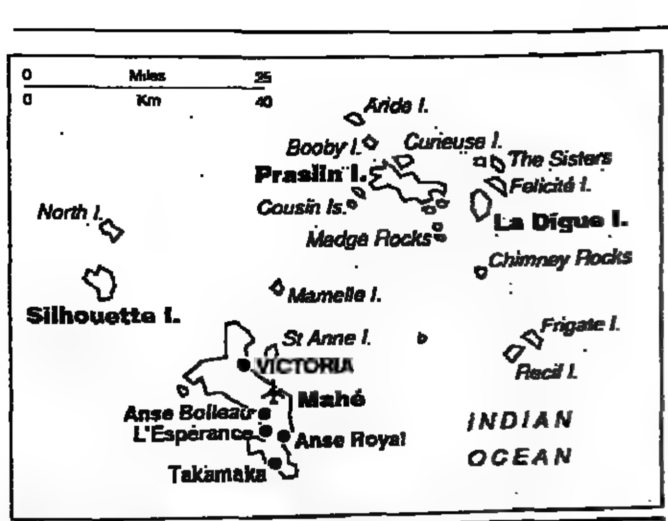
Mr Michel is as enthusiastic as any in putting these sentiments into practice. He promises an overhaul of the state-owned companies and speaks of the "very important role" the private sector can play.

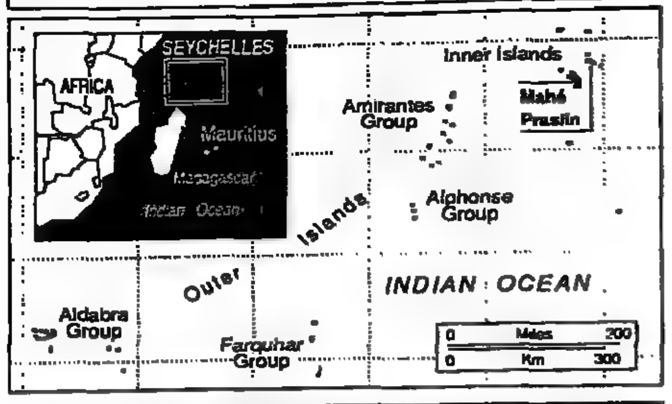
IN THIS SURVEY

All articles in the survey were written by **Michael Holman**

How much of this shift is prompted by events in eastern Europe, is uncertain. But other factors are at work. The reforms in South Africa and the rapprochement between the US and the Soviet Union, has left the government feeling more secure. Fears that Pretoria or one of the superpowers might provide military assistance to Seychelles' opposition leaders have faded.

Economic imperatives are also pushing the government towards greater encouragement of the private sector and foreign investment. More confident of its hold on power, more tolerant in the exercise of that power, and taking a pragmatic attitude to the development challenges of the 1990s, it seems more likely than not that the government will press ahead with change. Sceptics will not be convinced, however, until the promulgation of an appropriate investment code.





KEY FACTS

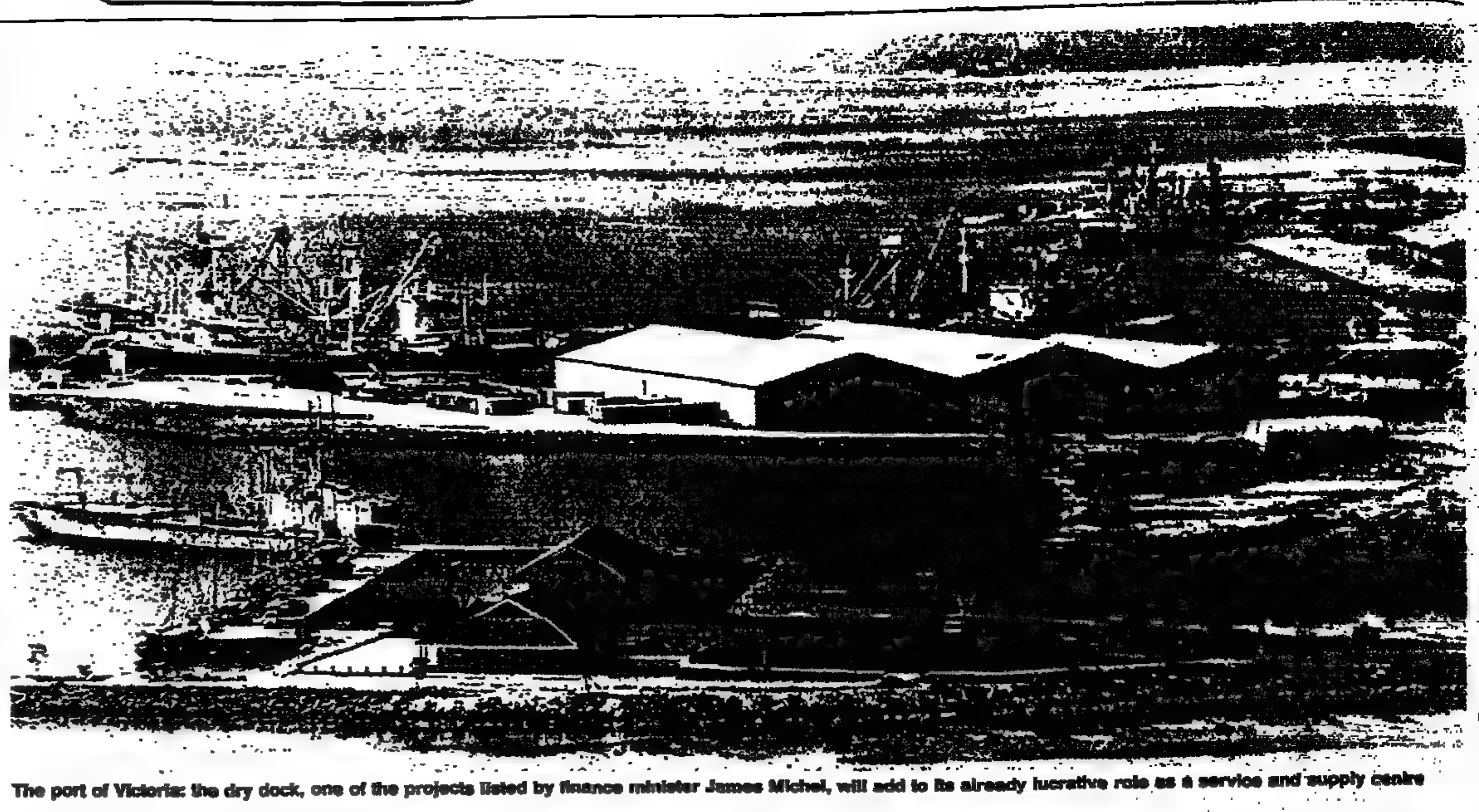
Area .... 404 sq km
Population .... 70,000 (1989 estimate)
Head of State .... President France Albert René
Currency .... Rupee
Average Exch Rate .... 1988 US$1 = R5.38
.... 1989 US$1 = R5.65

ECONOMY

	1988	1989
Total GDP (US$m)	265.7	n.a.
Real GDP growth (%)	6.0	7.0*
GDP per capita (US$)	3795	n.a.
Current Account		
Balance (US$m)	-28.4	-31.9
Exports (US$m)	17.3	14.0
Imports (US$m)	135.0	138.9
Trade Balance (US$m)	-117.7	-124.9
Visitor arrivals (000s)	77.4	86.0
Tourism earnings (US$m)	81.7	88.9*
Total external debt (US$m)	159.1	n.a.
Debt service ratio (%)	7.6	n.a.
Consumer prices (% change pa)	1.7	1.6
Total reserves minus gold (US$m)	8.7	12.1

* estimate

Source: IMF, Economist Intelligence Unit



The port of Victoria: the dry dock, one of the projects listed by finance minister James Michel, will add to its already lucrative role as a service and supply centre

ECONOMY: new sources of foreign exchange and investment are required

Challenges the government must face as harder options emerge

THE ERA of soft development options has ended for the Seychelles, and more challenging times lie ahead.

Aid money is harder to come by, for example, and the islands' external debt service payments are now uncomfortably high. New sources of foreign exchange other than tourism and fishing must be found; and while the benefits of what President Albert René calls "a welfare state" have been considerable, the costs are proving increasingly demanding.

"Things are not going to be as easy," acknowledges Mr James Michel, the minister of finance and deputy secretary general of the ruling Seychelles People's Progressive Front.

"We will have to tighten our belts a bit, and consume less, especially luxury items, but the foundations for continued development are in place. Good social services, tourism and fishing, and new projects such as prawn farming are under way. But we realise it's time to stand on our own two feet."

Given the islands' considerable progress since independence in 1976, and the economy's potential for growth, together with government's greater encouragement of the private sector, the 1990s could well be as successful as the 1980s.

The "soft" path was by no means easy for a micro state of more than 100 scattered Indian Ocean islands.

Nonetheless, several factors smoothed the way. Given the idyllic nature of the destination, it is not surprising that the tourist sector has grown rapidly.

At the same time, the economy coped with a comparatively modest level of training in its labour force. Aid and finance on concessionary terms was fairly readily available. Post-independence development objectives concentrated on essential improvements to the infrastructure and the provision of basic needs in health, education, housing and social services.

The infant mortality rate has been nearly halved

However, there are signs of more demanding times to come in the "hard option" era.

The tourist sector must now strive for quality rather than quantity, while an overdue renovation programme will strain government resources, even with involvement of the private sector and foreign investors.

There has always been a skills shortage here, exacerbated by emigration. But it is now a more serious constraint on development.

Meanwhile aid sources are more difficult to find. Faced by competing demands from mainland Africa, not to mention eastern Europe, donors look askance at requests from a country whose per capita income of around US$4,000 is many times that of most other countries in the region.

Traditional exports such as copra have slumped, and the agriculture sector may be undermined by labour drifting to better paying jobs.

Meanwhile, the country's external debt service ratio reached 19 per cent this year, and will be about the same next year – because of a bunching of maturities, not profligate spending.

Inflation has been kept to low single figures

Servicing domestic borrowing reached a record R147m in 1989, compared to R83m in 1986. The cost of the welfare state is starting to tell. Education and health spending took up 47 per cent of current spending in the 1989 budget.

BALANCE OF PAYMENTS (R million)	1985	1986	1987	1988	1989
CURRENT ACCOUNT, NET	-132.5	-205.2	-116.3	-152.8	-180.8
Goods, services, and income, net	-228.9	-275.5	-235.3	-281.5	-330.2
Of which:					
Tourism income	329.9	341.8	374.0	433.1	515.0
Exports	33.1	27.4	44.9	92.8	79.2
Re-exports	168.2	87.8	77.6	78.7	98.5
Marine and port charges	19.2	19.2	20.0	20.7	25.4
Imports	-597.0	-562.2	-536.8	-726.1	-784.9
Freight and insurance	-105.7	-97.8	-95.1	-126.5	-138.9
Foreign travel	-65.1	-59.1	-66.9	-70.8	-96.5
Interest: receipts	11.4	9.7	11.6	12.6	14.8
payments	-23.8	-29.0	-45.4	-47.3	-45.4
Transfers, net	96.4	70.3	119.0	128.7	149.4
Of which:					
Official grants	84.2	86.0	105.0	125.0	136.8
Fishing licence fees	18.0	16.0	27.0	26.8	37.8
CAPITAL ACCOUNT, NET	117.6	206.9	106.4	106.9	179.2
Official loans, net*	109.2	159.0	20.9	18.0	75.4
Commercial bank's assets	0.6	-3.8	6.9	-5.0	26.0
Private capital, net	7.8	51.7	78.6	93.9	77.8
CURRENT and CAPITAL ACCOUNT, NET	-14.9	1.7	-9.9	-45.9	-1.6

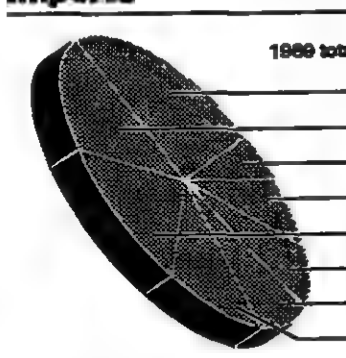
*This comprises drawings net of repayments by the Central Government, Central Bank and other public sector organisations. Central Bank

EXPORTS (R million/ metric tons)	1985	1986	1987	1988	1989*
Copra					
Quantity	1,632	2,382	2,270	1,138	891
Value	7.56	3.81	3.21	2.85	2.50
Cinnamon Bark					
Quantity	794	1,135	421	239	243
Value	2.42	2.81	1.57	1.06	1.38
Frozen/fresh fish					
Quantity	753	370	492	836	767
Value	10.56	5.76	8.07	12.31	13.12
Canned tuna					
Quantity	–	–	1,290	4,019	3,075
Value	–	–	20.75	56.55	43.85
Other exports**					
Value	1.32	1.46	2.33	2.91	6.94

* Provisional ** Includes figures for guano. Central Bank

Imports

By country of origin
1989 total Rupee 925.8million (provisional)



Source: Central Bank

Yet these problems and challenges, which the government is tackling, should be seen against a backdrop of success.

The tourist sector is the main foreign exchange earner: it has seen visitors rise from 55,000 in 1977, the year after independence, to a forecast 100,000 this year. At the same time, the environment has been rigorously protected.

A free health service has dramatically benefited the nation's health: the infant mortality rate has been nearly halved from 32 per 1,000 live births in 1977, and has pushed life expectancy at birth to nearly 70. The entitlement to nine years of free education from the age of six has raised literacy rates to 85 per cent.

Roads on the main island, Mahé (home for nearly 90 per cent of the population), are excellent, public transport is reliable, and there are no slums. Inflation has been kept to low single figures, and government controlled marketing and supply agencies have made sure that imported staples are always available, at a stable price.

Per capita yearly income is more than US$4,000

An average annual GDP growth rate of around 6 per cent has pushed per capita yearly income to over US$4,000.

On the fiscal and budgetary front, Mr Michel – whose influence may be reinforced by the fact that he doubles as chief of staff of the islands' armed forces – says he intends to keep a tight rein.

External debt servicing has peaked at 19 per cent, will drop slightly next year, and then fall steadily. The target of R85m for the 1990 budget deficit – 5 per cent of GDP – should be realised, he says: "Our aim is to achieve a balanced budget by 1992 at the latest."

Mr Michel rules out the introduction of charges for health and education services, but promises "more efficiency, less wastage" – as well as noting the financial savings from reducing the two-year Youth Training Scheme to 12 months. Effectively compulsory, and inculcating the merits of Seychelles-style socialism, it has not been very popular anyway.

He also pledges a radical overhaul of the state sector, whether opening up the government owned hotel chain to the private sector, or subjecting the accounts of state owned corporations to greater scrutiny.

Turning to Seychelles export potential, Mr Michel lists projects under way, in the pipeline, or on the drawing board.

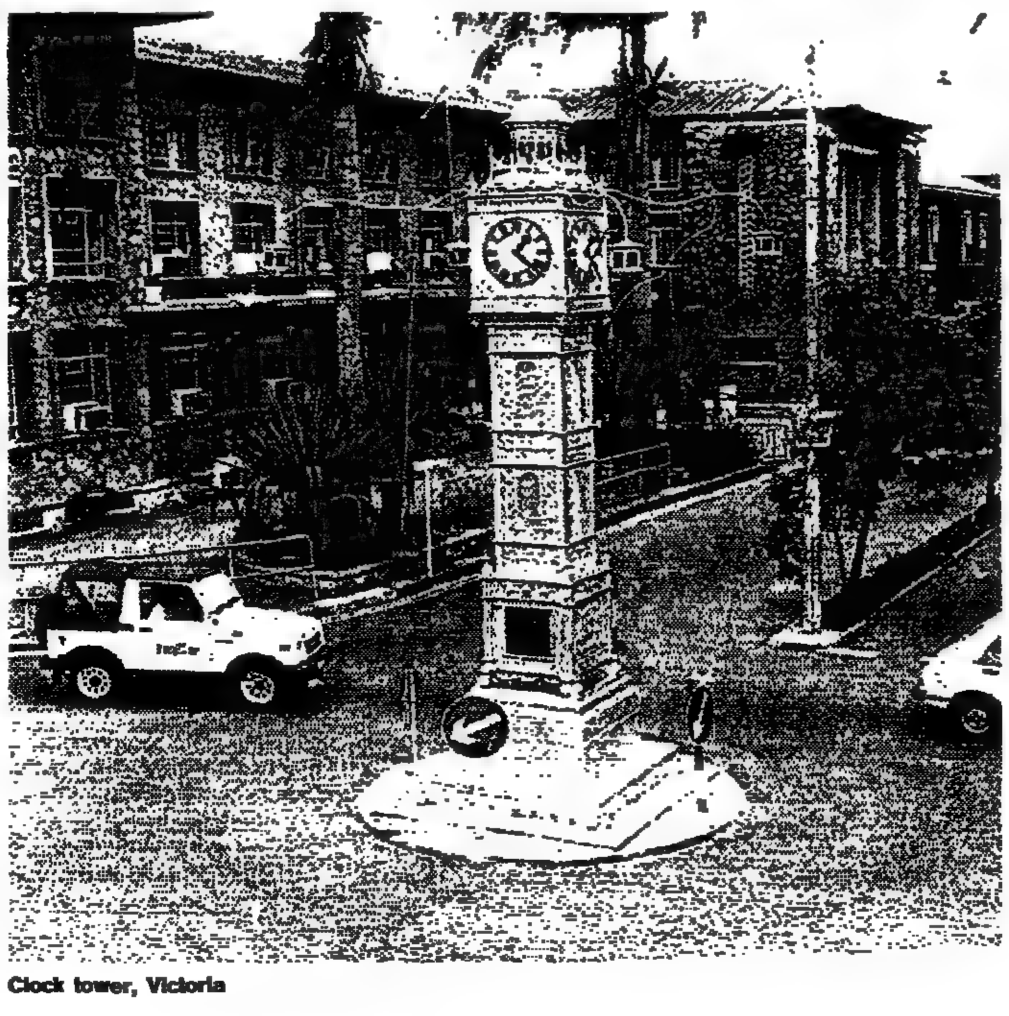
The prawn farm and flower nursery (see Page 3) are set to become substantial foreign exchange earners; a dry dock will add to Victoria's already lucrative role as a service and supply centre; more Seychellois ships will reap the rich fish harvest in the islands' vast 1.3m sq km Exclusive Economic Zone.

"We aim to achieve a balanced budget by 1992"

Plans to make Seychelles International airport the flight information centre for the region will also be a reliable hard currency earner, alongside rental income from the US satellite tracking station and the BBC relay station on Mahé.

But Mr Michel's optimism stems at least in part from the increasingly important role of the private sector and the foreign investor – with whom government relations have in the past been sometimes strained. The long delayed investment incentive code will be ready by the end of the year, the minister promises.

"The private sector has a very important role in revitalising the economy, and providing a dynamic input," declares Mr Michel. "There are opportunities for the foreign investor – in hotels, for example, and we guarantee fair treatment."

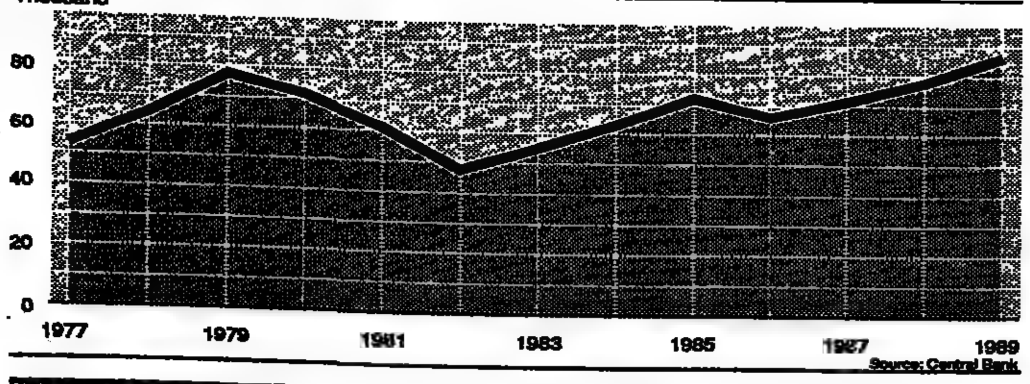


Clock tower, Victoria

FINANCIAL TIMES
1990 RELATED SURVEYS

Number of visitor arrivals

Thousand

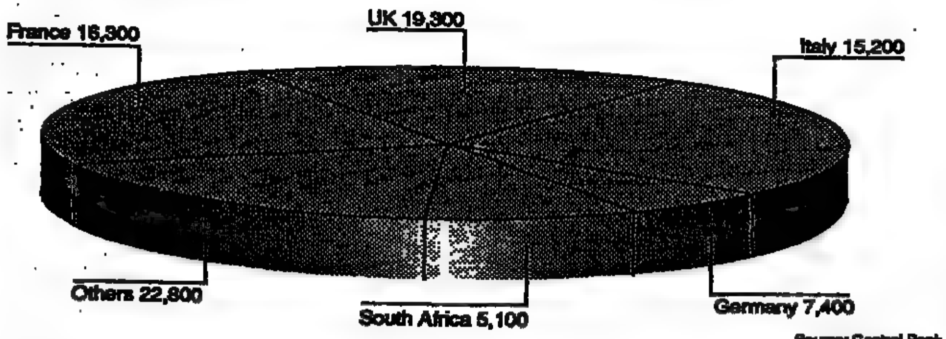


Source: Central Bank

Visitor arrivals

By country of residence

1989 total 86,100



Source: Central Bank

TOURISM: a new priority is the quality rather than quantity of visitors

Changes to the holiday chemistry

WITH VISITORS set to reach the record level of 100,000 this year and their per diem expenditure rising, the Seychelles' tourist sector is blossoming.

Since the islands' traditional European market is now well served by international air carriers, as well as the national airline, Air Seychelles – which is also starting to tap the Japanese market – the growth should be sustained.

It is too early to tell whether the Gulf crisis will affect the tourist sector – but it is a possibility.

Scope for expansion lies partly in more hotel beds. A new 120-room hotel is planned for Mahé, and a 90-room hotel on Praslin will be completed next year – bringing the three main islands (La Digue is the third) close to the government limit of 4,000 beds.

Visitors from cruise liners are also increasing, with at least 17 ships expected in the coming months, while the British owned Air Europe will soon operate on the Milan-Mahé route, say Seychelles officials.

There are also high hopes for South Africa. The Republic is already the fifth largest tourist source, but aggressive marketing in a post-apartheid South Africa would see the figure rise, officials believe.

The main challenges for the industry, however, are not how to lure more visitors. They are to persuade them to spend more money on local entertainment and artefacts; to cut the sector's high consumption of foreign exchange; and to find ways to improve the standards at several of the older hotels, where renovation is overdue.

The importance of the sector can hardly be overstated. It has been the leading foreign exchange earner for the past two decades (R521.8m in 1989, from 86,093 visitors) and is the largest single source of work, accounting for between 15 and 20 per cent of employment.

Underpinning government planning for the sector is a determination to ensure that the environment is not damaged by the influx of visitors. Hence the ceiling of 4,000 hotel beds for the three most popular islands, and an annual limit ofaround 100,000 visitors, although the figure is flexible (currently there are around 3,500 beds available).

As Mr Maurice Loustau-Lalanne, principal secretary in the ministry of tourism points out, the shorter the stay, the greater the numbers of visitors that can be accommodated over the year.

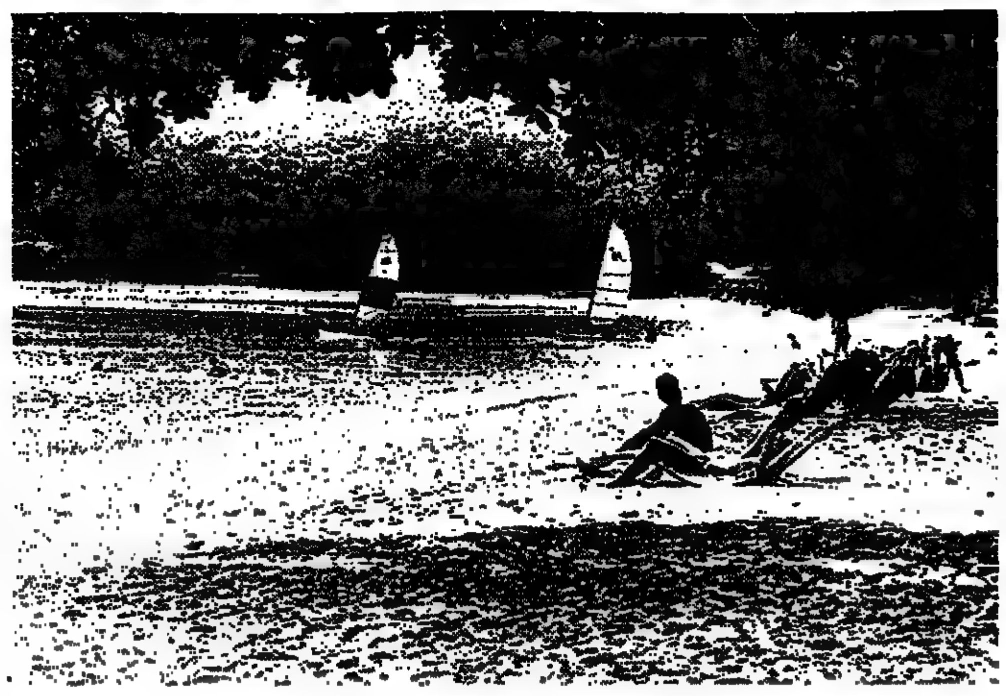
The average length of holiday visit is falling, from a little over 11 days in 1988-9 to just over 10 days.

As efforts to tie the Seychelles into the Indian Ocean holiday network of Mauritius, Comoros and Kenya bring results, a higher proportion of holidaymakers will be visiting the Seychelles on their way to or from another destination.

With a shorter average stay, says Mr Loustau-Lalanne, the islands could handle 140,000 visitors a year.

In the meantime, however, officials acknowledge that the overall hotel standards must improve if Seychelles is to keep its place as an upmarket destination in the face of regional and international competition.

Around 10 per cent of the visitors return to the islands, according to a survey conducted last year. It should be more than twice that, says Mr Norbert Jacq, the director general of tourism.



Beach scene: government policy has protected the Seychelle's idyllic environment

Part of the reason, according to the two officials, is that the "hotel chemistry – the combination of quality, price,. and service – is not quite right." The worst offenders are found among the hotels in the government owned Seychelles Hotels chain, as government officials readily acknowledge. .

They also maintain that it is largely an inherited problem. The establishment of the chain in 1986 was prompted in part by the tourist slump in the early 1980s, when visitors fell to 47,000 in 1982.

Although business picked up, the government maintained that state intervention in such a critical sector had been necessary. Hotels that came under the state umbrella were, say government officials, being neglected by private sector owners who were reluctant to re-invest and renovate ageing assets.

The private sector replies that re-investment would have taken place had the government committed itself to an investment code.

Whoever is right, the wheel is turning. Some of the hotels in the chain are now candidates for privatisation.

In the meantime, Cosproh, Compagnie Seychelloise de Promotion Hoteliere, the holding company for government owned hotels, is expected to invest R149m in rehabilitation and renovation, as well as new projects, under the 1990-94 Development Plan.

The prime growth area is souvenirs and cottage industry items

The second main plank of government policy for the 1990s is finding ways to persuade tourists to part with their money in the Seychelles.

Average expenditure per diem, per visitor has been rising in real terms – R516 in 1988 to R586 last year – but not as far as government would like.

A recent tourism ministry policy paper explores the possibilities, including a wider choice of restaurants, water sports, game fishing and boating, glass-bottom boats for marine viewing, and expanding golf and tennis facilities.

But the prime growth area identified is sales of souvenirs and local produce such as spices, herbs, coconut products and cottage industry items such as mother of pearl buttons and model boats.

The task of reducing the sector's consumption of foreign exchange is likely to prove more difficult. Most of the infrastructure and services associated with tourism, ranging from cars and buses to liquor, will always have to be imported.

But officials hope that the food import bill might be reduced. Current production of fruit and vegetables is continuing to fall behind tourist-led demand, and imports of these items rose nearly 10 per cent last year.

Generally poor soil and the fact that agriculture has become less rewarding than work in other sectors, make it likely that the gap between demand and supply will prove hard to close.

INDUSTRY PROFILES

Two foreign exchange earners

ALTHOUTH TOURISM is likely to be the mainstay of the Seychelles economy for the forseeable future, two projects in particular illustrate the government's attempts to broaden the foreign exchange earning base.

One is the construction of a nursery of orchids and other flowers, destined for the markets of Europe and the Middle East. Managing the R12m scheme is the state-owned company Indian Ocean Nursery. After experiments in 1988, a site was prepared at Barbarons, on the west coast of Mahé, last year. Exports of anthurium – a reddish-pink flower – and orchids from the two hectares under cultivation got under way last October. Exports are running at 5,000 flowers a week, and are expected to reach 20,000 a week next year.

"It's an excellent example of the sort of project we need," says Mr Mukesh Valabhji, managing director of the Seychelles Marketing Board (SMB) under whose auspices the scheme falls. "There is a high foreign exchange return on our investment – up to R4m a year, and we are using spare airfreight capacity on flights carrying tourists back to Frankfurt, Zurich, Paris and London," he explains.

The second scheme, which taps the Seychelles' enormous marine potential, is taking up Mr Valabhji's weekends. Nearly every Friday he leaves Mahé by plane to inspect one of the SMB's largest single investments – the US$12m prawn farm on Coetivy Island, 220 miles south of Victoria.

Clear waters, cyclone-free conditions and the fine climate provide a near perfect environment. Under the pilot project which began in mid-1989, four cultivation ponds were constructed, together with a sea-water intake and drainage system, a disease control laboratory, and warehouse facilities.

Exports of anthurium (above) and orchids began last autumn

The results were excellent, and prawn farming is set to become the largest foreign exchange earner after tourism and fisheries.

When completed in mid-1991 there will be 64 prawn cultivation ponds each measuring 5,000 sq m, expected to produce over 600 tonnes a year. The project will include a processing, freezing and cold storage plant, and the prawns will be exported in refrigerated container ships to Japan and Europe.

It may be difficult to match this prawn bonanza in other areas of mariculture, but the range of prospects is considerable. There are plans to investigate rearing giant clams, trochus and green snail, and R1m has been set aside to explore culturing of oysters and other species for production of mother of pearl for export.

Back on land, the coconut industry might be revived by a project which aims to produce 40 tonnes of coconut cream a month for export. This new product has been successfully test-marketed in Europe, and agriculture ministry officials believe it could rescue a sector hit by low prices for copra.

INVESTMENT: a formal welcome to foreign investors

Draft code on input from outside

AFTER YEARS of prevarication, the Seychelles seems ready formally to spell out a welcome to foreign investors, including substantial incentives.

When promises are put into practice, investment in the islands' tourist sector, marine resources (such as fish processing and prawn farming), and the expansion of Victoria port including a dry dock facility, should become attractive propositions.

Until a year ago it was difficult to avoid the impression that the Seychelles has been less than enthusiastic in its search for foreign investment.

Although efforts have been made since 1979 to draw up a legally binding investment code, they came to nothing.

Foreign investment was not actively discouraged. But as the islands' Federation of Employers Associations has noted, "the procedures facing a potential investor in Seychelles are complex and bureaucratic".*

Under current regulations the initial application, submitted to the Department of Industry, involves 31 pages of detailed questions, and takes anything from four months to a year before a decision is made, the Federation says.

Last year, however, the government signalled its determination to try again. In the course of presenting the 1990 budget, Mr James Michel, the minister of finance, said that a policy document on investment would be produced in 1990: "This will contain a range of fiscal and monetary incentives," possibly including "concessionary rates of taxes on imported capital equipment and inputs; on dividends and capital repatriation as well as management fees and profits."

The draft recommendations should become law early next year

He also held out the possibility of grants, tax breaks, and concessionary interest rates.

The minister went on to break new ground with the disclosure that the government "intended to invite private participation in certain selected parastatals [state owned corporations]". The next step came last March, when the ministry of finance asked the Federation of Employers Associations to draw up an investment guide "to be followed by a codification of laws to finalise investment policy."

By July it had made its recommendations. The government is still studying them, but the business community is hopeful that they will be accepted in toto.

Michel said this month that there are no substantial differences between the government and the private sector over the draft. It should become law early next year, he added. The investment incentives would give priority to industries which use local raw materials, encourage import substitution, or are export-oriented – the latter enjoying access to European markets under the Lome convention.

The main points and proposals in the draft issue are:

- In addition to tourism, other service industries which should be encouraged include off-shore banking and insurance, international consultancy, engineering, marketing, design or legal services, and the registration of ships engaged in international trade.
- Some industrial activities, such as those on a large scale relative to the economy, may need public sector participation.
- Issued share capital would have to be at least 30 per cent of the capital investment; and a proportion (up to 30 per cent) of the working capital.
- Approved projects would be guaranteed full repatriation of invested capital and profits; protection by law against nationalisation without compensation; tax-free import of capital equipment except vehicles and electric generators; no withholding tax on dividends, interest or royalties; electricity supplied at marginal tariff.

Other incentives would make it easier to employ expatriates, make labour laws more flexible and give 99-year leases on industrial land.

*Seychelles - A Guide for Investors, Federation of Employers Associations, compiled by David Ogilvie of British Executive Service Overseas.

FISHING

Abundance promises big net profits

"WE WANT to make Seychelles one of the leading *fishing nations of the world,"* says Mr Jeremie Bonnelame, minister of agriculture and fisheries.

It may seem an ambitious target for a country of only 70,000 souls, but they preside over a vast Exclusive Economic Zone of some 1.3m sq km whose enormous potential can only be guessed at.

It has already proved itself to be one of the world's most abundant tuna fishing grounds, with the Western Indian Ocean catch valued at US$400m annually. Most of it is processed outside the region.

Fishing is second only to tourism as a source of foreign exchange

If the Seychelles were trying to reach Mr Bonnelame's target without outside help, it would be just an idle dream.

The minister, however, reflects the government's apparent shift away from state controls on the economy when he urges the private sector and foreign investors to play a greater role in the development of the fishing industry, especially tuna.

"We are already talking to companies in Thailand, Italy, France and Britain about the development of our existing tuna canning plant," opened in 1987, says Mr Bonnelame. They already have French partners, but are "looking ahead to the possibility of installing a second production line in the existing plant."

The sector is second only to tourism as a source of foreign exchange, and medium-to-long term prospects for expansion are probably greater.

Exports of fish and fish products account for around 90 per cent of merchandise trade exports, while the port of Victoria has emerged as the main tuna port in the Indian Ocean, supporting the port's increasingly lucrative role as a supplier of fuel and other services.

This role will be enhanced when a 3,500 tonne floating dry dock is installed, tentatively scheduled to take place during the period of the 1990-94 Development Plan.

The port will then be capable of repairing and maintaining large fishing vessels and small cargo and naval vessels.

One of the main elements in government planning is to build up a Seychelles fleet of modern purse seiners.

The programme was set back when the first of the specially commissioned R22m vessels was destroyed by fire at a shipyard in southern France. Its replacement should be ready early next year. It may be joined by a second vessel later in 1991; the intention is to build five in all, says Mr Bonnelame.

They will supply the cannery, where capacity will be increased from 12,000 tones to 18,000 tonnes of raw material annually.

"We want to go into more local processing," says the minister, "not simply canning, but smoked fish and fish fingers for example."

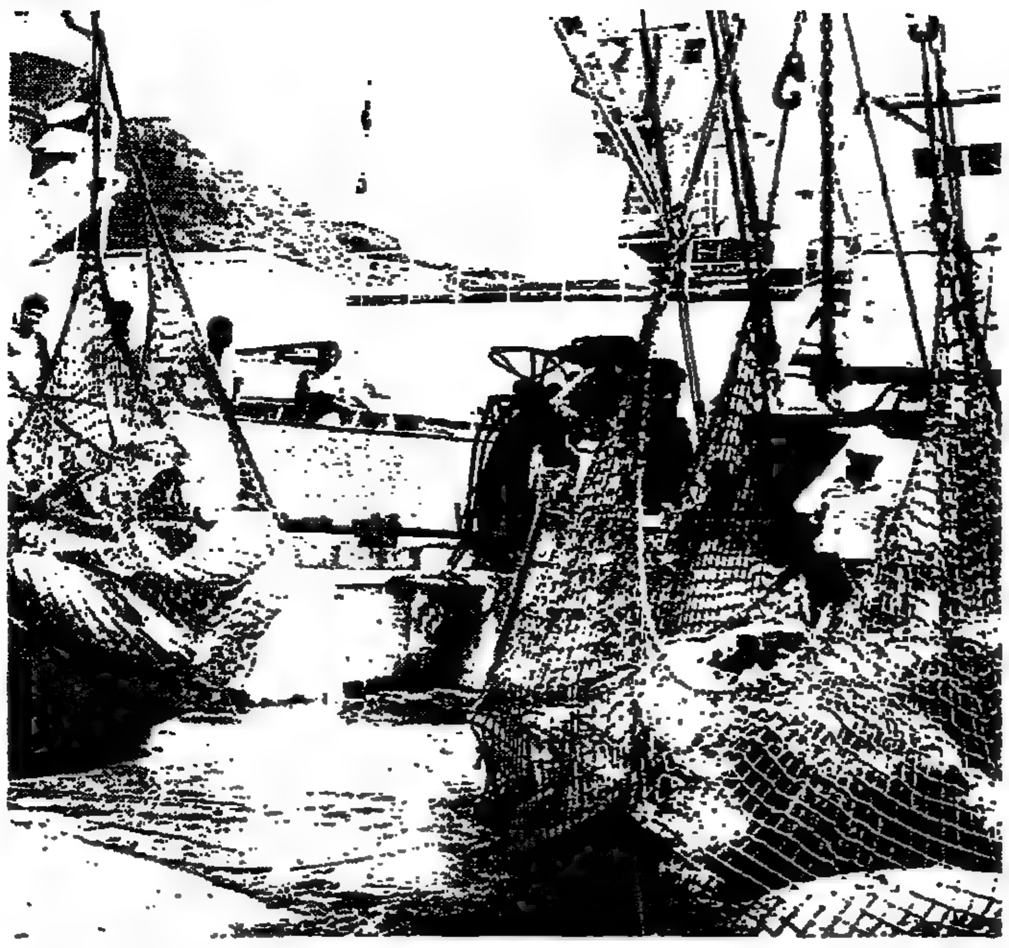
In the meantime, the Seychelles must accept that the bulk of the catch will be caught by foreign vessels, but not without a benefit for the islands.

Apart from the business the vessels bring to Port Victoria, licence fees are a useful source of hard currency.

Fees have more than doubled from US$2.6m in 1985 to US$6.7m last year. Around 55 foreign vessels are currently licensed to fish in Seychelles waters, most from the European Community.

Although the tuna business is the main money spinner, demersal fishing is thriving.

It consists of some 1,000 fishermen and more than 400 boats, ranging from pirogues to all-weather vessels. Aside from the small domestic market, there is growing demand from Europe for the high quality catch.



The Western Indian Ocean tuna catch is valued at US$400m annually

OIL: partnership with exploration companies

Hopes of becoming an oil producer

THE SEARCH for oil is under way. It is a distant prospect, but one which if realised would transform the Seychelles' economy.

"Every indication seems to point to the presence of oil in Seychelles waters," said Mrs Danielle de St Jorre, the planning minister, last August. She was signing an oil exploration agreement with Ultramar Canada Inc, which is leading the search, along with Texaco of the United States and Britain's Enterprise Oil.

The 1990-94 Development Plan is cautious about oil prospects. The Seychelles lies in what it calls "a high risk frontier area".

Nonetheless the state-owned Seychelles National Oil Company, established in 1986 – and more importantly, three oil companies – believes it is worth exploring the Seychelles continental shelf.

This area covers about 60,000 sq km of the country's Exclusive Economic Zone (1.3m sq km).

Although seismic surveys were carried out in the late 1960s, it was not until independence in 1976 that exploration really got underway. The following year 47 blocks were awarded under three separate licences.

The US company Amoco drilled three test wells – all of which proved dry – about 125km west of Mahé, in 1980-81.

Enterprise Oil last year described prospects as "very encouraging"

Efforts revived in the mid-1980s when Norway provided technical assistance, and concessions covering between 25,000 sq km and 30,000 sq km were offered.

Enterprise Oil, which has spent over R22m in the search for oil in Seychelles waters, negotiated rights and last year described prospects as "very encouraging". Test drilling should begin soon.

Last June Texaco joined in, signing an agreement for exploration rights over some 12,000 sq km south of Mahé.

Under the government's Model Petroleum Agreement, the company that discovers oil in commercial quantities would enjoy a 20-year production period.

The Seychelles National Oil Corporation would be entitled to taxes, royalties, and participation of up to 50 per cent – but the government's 1990-94 Development Plan stresses that the Agreement "is modified constantly, keeping in view the climate in the oil industry".

Meanwhile, the government hopes to put the Seychelles on the international oil map when it plays host in mid-December to the first Indian Ocean Regional Seminar on Petroleum Exploration. Most of the 20 countries in the region are expected to participate as well as a number of international oil companies.

BUSINESS GUIDE

President, Minister of Industry and Defence: France Albert René

GLORIOUS BEACHES *and* excellent communications with the outside world, including phone cards and public call boxes which invariably work: Seychelles surely is a business visitor's paradise.

What is more, there are none of the usual tropical hazards such as bilharzia, malaria, cholera or poisonous snakes, while the islands' culture regards tipping as unnecessary. It all seems too good to be true.

If there is a serpent in this Indian Ocean Eden, *it is in the form of the somewhat truculent* taxi drivers, whose reluctance to use their meters makes their services expensive. But it should be also acknowledged that they are efficient and answer calls in a matter of minutes.

Many destinations in Victoria, the capital, are within walking distance.

Most of the hotels on Mahé are within easy reach of Victoria. Some need renovation, but all make up for pokey rooms and sometimes indifferent services by their location on or near some of the world's finest, cleanest beaches. Golfers can enjoy a nine hole course at the Reef Hotel, Anse aux Pins.

The Seychelles hopes to challenge regional competitors such as Nairobi and Harare as a conference venue when work on a 500-seat centre is completed next year.

Getting to the main islands off Mahé is easy. There are daily, scheduled flights to Praslin (15 minutes), Fregate, Denis, Desroches and Bird, and a ferry service runs between Mahé and Praslin, and between Praslin and La Dique.

The big car hire companies, such as Avis, Budget and Hertz are represented here as well as plenty of others.

One of the best sources of advice when it comes to getting down to business is the Federation of Employers Associations (Tel - 23812). The Federation has produced an invaluable review of the economy and business conditions called "Seychelles – A Guide for Investors". It includes a draft Guide for Investors, which is expected to form the basis of an investment *code due to be published early next year* (see Page 3).

Credit cards are widely accepted. Visas are not required, and there are no foreign exchange control restrictions. Cable & Wireless in Francis Rachel Street, Victoria, operates a 24-hour cable, telephone and telex service.

Direct dialling is available for most countries.

Main Ministries

- President, Minister of Industry and Defence: France Albert Rene - 24391
- Finance: James Michel - 21790
- Planning and External relations: - Danielle de St Jorre 24041
- Administration and Manpower: Joseph Belmont - 34041
- Tourism and Transport: Jacques Houdoul - 22881

Banks (Victoria)
Banque Française Commerciale - 23096
Barclays - 24101
Standard Chartered - 25011

Central Bank - 25200
Development Bank of Seychelles - 24471
Seychelles National Investment Corporation - 21790
Seychelles Industrial Development Corp - 24941
Seychelles Tourist Board - 22881
Seychelles Chamber of Commerce and Industry - 23310

Hotels
Auberge Club des Seychelles - 47550
Le Meridien Fisherman's Cove - 47252
Northolme - 47222
Seychelles Sheraton - 78451

Embassies
US - 23921
British High Commission - 23055/6
France - 24523
Germany - 22306
India - 24486
Soviet - 21590
Sweden - 24710
Netherlands - 47100

Airlines
Air France - 22414
Air Seychelles - 21547
British Airways - 24910
Kenya Airways - 22989

Courier Services
DHL - 23301
TNT Skypak - 22100

ARTS

Yolande Snaith (Dance Umbrella)

RIVERSIDE STUDIOS

The dance-choreographer, Yolande Snaith, makes work that is baffling, wry, complex, haunting and deeply British. (Though I'd rather call her, as Americans would, a performance artist.) She creates dream worlds packed with symbolic images. I often feel lost as I watch her work, lost in a maze, happily so.

A theatre piece by her lodges so many signs in my head that afterwards they work away there, so that I start to figure out what meanings it has for me and perhaps for Snaith. That enlarges its power. But what's best is being there in that maze.

I'm hooked from the first image of *Court by the Tale*, her new 70-minute work. Snaith herself, blindfolded, in high-heels, steps perilously along and around a square made of benches. How many threads are here already: the sense of the past, of not knowing where the next step will lead, of the difficulty of maintaining balance, of feeling one's way forward.

What follows uses film, speech (recorded and live), props and pedestrian action, as well as dance. Snaith's five co-performers are sometimes in medieval robes, sometimes in modern trousers and shirts; but Snaith herself is dressed in either modern or 1940s attire.

She's also haunted by a text from Hazlitt, which is recited on tape and which she echoes on stage. Here's the key sentence: "If we take away from the present the moment that is just gone by and the moment that is next to come, the solid basis of sense and reality will reduce itself to a pin's point, a hairline on which we will have some difficulty to maintain our footing without falling over on either side." Hence, the recurring imagery of perilous balance.

The work is full of Snaith's peculiar connections. She herself, often carrying one or more suitcases, is on some journey. The benches on which the medieval figures often sit, and the books they read, suggest a cloistered and studious community or court. As they pace and read, they sometimes find they have stepped on to colleagues' trains. (Caught by trains, tails, tales.) But they also drop, bounce, toss and catch tennis balls in arcs and patterns, and hold them up like Grail trophies. (Court, caught.)

The main stage area is surrounded by a low square of sand; later, film shows sands of time in an hourglass. In some modern-dress sequences, balance is no longer a problem: Snaith and Co often dance in strong phrases of tumble, rise, step, jump and proceed. But the end of the work suggests both solution and failure.

The nonsense gains of Snaith's world – as in her 1989 *Germs: Advanced Lessons in Social Skills* – are pre-sexual, and the works that hers most remind me of are the *Alice* books. Like Alice, Snaith sees the complex absurdity of life, and keeps trying to turn nonsense into sense. *Court by the Tale* (just get that title) is a step through the Looking Glass.

Alastair Macaulay

Golem the Rebel

CITY THEATRE, ST GALLEN

The lost years of 20th century music cover not just the Nazi terror before and during the war, but also the post-war era of Communist persecution in eastern Europe. It is a story which will take time to unravel.

The Romanian composer, Nicolae Bretan (1887-1968), whose one-act opera, *Golem the Rebel*, has just received its first west European performance in the Swiss city of St Gallen, was treated as a non-person for the last 20 years of his life. Born in Transylvania in the dying years of the Hapsburg Empire, he was a man of three cultures – Romanian by birth, but equally attuned to the musical climate of Budapest and Vienna. Singer, conductor and opera administrator at Cluj, he wrote almost as many German and Hungarian lieder as Romanian, and made the *Golem* libretto available in all three languages.

Golem the Rebel was staged at Cluj in 1924 and again in 1948, shortly before Bretan was expelled from the composers' union. After his death in penury, the Ceausescus allowed a revival of his music, goaded by the efforts of his emigré daughter.

Golem is a modest but sincere 50-minute work, which interprets the Jewish legend according to the artistic fashions of the 1920s. In addition to the familiar Golem symbolism of man's flawed creativity, Bretan's opera mixes religious and erotic fantasy, a genre favoured by Korngold, Hindemith, von Schillings and other contemporaries. In this incarnation, the golem – a being fashioned from clay by the rabbi of Prague – falls in love with his creator's grand-daughter, forcing the rabbi to kill the golem to prevent him ravishing the girl.

The opera leaves a mixed impression. Bretan writes well for the voice and shows an economical sense of theatre. The sombre orchestral textures, with melancholy tones of phrase redolent of the Hungarian Gypsy dulcimer, are clearly Slav in origin, while the sweet lyricism of the various instrumental obbligatos shows an attractive Italian influence. But the end result fails to satisfy. The lengthy dialogue between the golem and its master – a heavy mixture of arioso and recitative – makes jerky, fragmentary progress. Bretan's harmonic language is limited, and there are too many grand rhetorical statements, with nothing to back them up. Promising melodies repeatedly come to a premature halt or wither away. For all its good ideas, the work is ultimately let down by its lack of musical or dramatic development.

This production – coupled with a ballet on Rimsky-Korsakov's *Sheherazade* – nevertheless offered a useful introduction to Bretan, and suggested that his mature lieder might be worth investigation.

The staging by the St Gallen intendant Glado von May concentrated on essentials, in an atmospheric framework of architectural projections designed by Annelies Corrodi. The cast of four included the Romanian baritone, Karoly Szilagi, in the title role, the tenor, Steve Dupré as the Rabbi, and Stefanie May as Hana. They and the orchestra under Eduard Meier gave a performance of impressive commitment.

Andrew Clark

Preserved for 2m people to enjoy: Old Harry Rocks, Corfe Castle Estate

ARCHITECTURE

In heritage we Trust

SHOULD we thank God for the National Trust? Last week I wondered what things would have been like without it as I read the words of one Mr Rodney Legg, the chairman of the Open Space Society, attacking the Trust in the course of a lecture he was giving to celebrate his society's 125th birthday. His lecture was given at the trust's invitation and its chairman, Dame Jennifer Jenkins, was on duty. Mr Legg remembered his media opportunity rather than his manners.

The Open Spaces Society was founded as the Commons Preservation Society in 1865. It is often seen as one of the parents of the National Trust, which was founded some 30 years later sharing the common founders: Robert Hunter, Octavia Hill and Canon Rawnsley.

Today the society campaigns for the protection of common land, village greens and rights of way, and has 2,500 members. It is also one of the societies that has the right to nominate a member of the National Trust's council. Mr Legg is that nominee.

Although, as a recent member of the National Trust's Council he has had plenty of opportunity to air his views at meetings, Mr Legg released his most outspoken comments to the press in advance of his lecture.

He feels strongly that the National Trust should be a model landowner, "but it falls short of its founders' ideals". He pointed out some specific examples of places where he thought that public access was unduly limited and made the general point that much trust land is "treated almost identically to the surrounding degraded landscape produced by modern farming".

He had some colourful and emotive phrases. "Far from being an egalitarian access organisation promoting the public good, the trust has become an elitist club of art connoisseurs, and defensive in the protection of a prize collection of dinosaurs." He accused the trust, wrongly and damagingly, of having "secret" properties that are not shown to the public, and was disparaging about the taste applied to the preservation of country houses.

The trust holds its annual general meeting on November 3 at the Aberconway Conference Centre in Llandudno where there will be some 12 resolutions for discussion from the members – an unusually high number. Two of them concern hunting on trust lands which are merely symptomatic of the power of pressure groups to ride their particular hobby horses through the constitutional hurdles of a large organisation. A reversion to the use of old county names is also to be discussed (would anyone care if Avon disappeared?).

A key resolution will deal with the main problem that worries Mr Legg – the issue of public access to trust land. The trust owns 625,000 acres and many members feel that public access to this is too limited. The resolution argues for more rights of way.

The trust is not unsympathetic to this and yet persists in calling itself "the largest private landowner and conservation society in Britain". Instead of emphasising the "private" side of its ownership, surely the trust should say that the land is held for its members.

The political edge to Mr Legg's recent remarks suggests that the trust is the last of the great feudal landlords – an impression not everyone in the trust is keen to deny. The problem for the trust is how to be a sensitive landlord with at least two million people involved.

What the trust has always realised is that ownership is the key to preservation. We have to be grateful for the fact that 514 miles of coastline are protected by the trust; most of the Lake District, some 140,000 acres, is owned or protected; some 51 villages are sympathetically maintained; and there are some 190 houses and castles which are open to the public.

What would have happened without a body like the trust? Compare the situation in Ireland where houses and estates have collapsed and disappeared in huge numbers and there is no effective trust. Look at the empty, nationally-owned houses in France. Look, too, at eastern Europe, where a great architectural and cultural heritage has, in many countries, been standardised or allowed to vanish.

There is also the curious and anomalous position of heritage matters when they are handled by government. Why is the National Heritage Memorial Fund so short of cash? Why have the purchase grants of our national galleries and museums been frozen for the last five years? Why did the Land Fund, set up for the very purpose that Mr Legg would most approve of, buy so few acres? Why is parliament so ineffective when it comes to the discussion of matters of the heritage – uncertainties abound, and the heritage portfolio is always considered something fit only for a very junior minister?

The two million strong constituency of National Trust members shows, by its size, the importance of the public place and the protection of England. The problem of responding to the views of so many is not easy. It seems to me that, while I am on my knees in gratitude to the trust for the salvation of so much, as an organisation it needs to do more public thinking about the future of the preserved heritage and its role in the nation's life.

I feel that its educational role is performed in an amateur way. The potential for knowledgeable propaganda using television, the Open University, and the raw material of what must be the largest museum in the world, is enormous. Also, the trust should have more of a voice in urban affairs. It has shied away from cities; and cities would have been better places for the trust's presence.

It is not too late. The seasonal closures mean that a great many pictures and objects are invisible for a large part of the year; so why are arrangements not made for the display of pictures and objets d'art in national and regional museums during the closed season?

How scholarly is the trust? It has the potential to be a university of the built and natural environment – there could be more teaching and learning about art, architecture and the land in the great empty houses.

It is easy to attack large targets, but it is not easy to change large organisations. The trust is perfectly placed to expand the parameters of preservation, to broaden participation and enhance the national culture. Will it seize the opportunity, or prefer to retreat into dusty corridors?

Colin Amery

The Rising of the Moon

WEXFORD FESTIVAL

It is the illumination thrown on to the forgotten corners of the operatic repertory that, together with the Guinness and the seafood, bring audiences back so regularly to the Wexford Festival. Connoisseurs of 19th-century arcana have a double treat this year in the forms of Boieldieu's *La dame blanche* and Leoncavallo's *Zazà* but the festival is also making a rare sortie into the near present with Nicholas Maw's *The Rising of the Moon*, commissioned by Glyndebourne and first staged there in 1970.

Within the last three weeks, performances of *Scenes and Arias* in London, *Odyssey* in Birmingham and now the Wexford *Rising of the Moon* have coincidentally marked out the milestones in Maw's development. Of the three, the opera remains the least known and still perhaps the most problematical, though a production at the Guildhall School three years ago showed that its virtues were solid and likely to last.

With a tightly worked libretto by Beverley Cross, this everyday story of British imperialism in Ireland confounded by the wiles of the inhabitants of the town of Ballinvourney in Mayo in 1875 is a comedy; not an *opera buffa*, as Maw makes clear, but an operatic comedy in which the underlying themes – of honour and patriotism and the personal limits of both – are anything but lighthearted.

Comedy is a rare commodity in contemporary opera, comedy that raises a laugh rarer still. *The Rising of the Moon* is witty rather than hilarious; and Maw's music, for all its attempts at perky high spirits, is much more convincing when drawing out the other strands of the plot, and when he can launch his vocal lines over rich, intricate textures.

There is a good deal of Britten – *Albert Herring* and *Grimes* in the vocal writing and in the dreamy evocations of landscape, of Strauss and Berg too. But as in the best of Maw's music, it is woven into a distinctively personal language; one registers the allusions but never minds them.

If it seems unlikely to become a repertory piece, that is more because of the technical problems it presents, and the difficulties of getting the balance between voices and orchestra exactly right, than any shortcomings of plotting or invention. Simon Joly conducted the Wexford production, but in the rehearsal time available to him could hardly have sorted out all the difficulties. Instead of cushioning the singers, the orchestra presented a strident barrier to the stage, so that few of the words came across and much of the textural interest was scuffed and approximate.

The first act suffered most, but as the performance settled down, the straightforward production (by Ceri Sherlock, designs by Richard Aylwin) and the excellent cast made more of an impression. Mark Calkins struck a convincing figure, vocally and physically as Beaumont, the newly arrived officer required to prove his virility before his regiment with three seductions in a single night, and Pamela Helen Stephen was the local girl Cathleen Sweeney who falls for him; Maw allots his most luscious vocal lines to that role and she carried them off with steady and consistent beauty of tone. Marie-Claire O'Reirdan handled the coloratura of Atalanta Lillywhite with great panache; Annika Skoglund brought crisp distinction to the role of Elizabeth von Zastrow, wife of a visiting Prussian officer with whom Beaumont's less-than-one-night stand develops complex overtones.

Alongside the young fresh faces there was a sprinkling of familiar character singers – Pauline Tinsley as Lady Eugenie Jowler, wife of the colonel of the regiment and Beaumont's first conquest, Elizabeth Bainbridge as the Widow Sweeney, one of the Irish plotters, and Francis Egerton as Brother Timothy, the guardian of the island's religious soul as far as the opera is concerned, and charged with sole responsibility for its opening and closing scenes.

The Irish heart of the opera, its temporary victory over the British, carried extra resonances in Wexford. The "local colour" in *The Rising of the Moon* is perfectly judged, indeed all its strands, musical and dramatic, are elegantly interwoven.

Andrew Clements

Un ballo in maschera

METROPOLITAN OPERA, NEW YORK

The first new production of the Met season, a *Ballo in maschera* produced, designed and lit by Piero Faggioni, was a ridiculous and finally disgusting show. The Prelude accompanied a commedia dell'arte ballet; and during Amelia's and Riccardo's final duet the eye was held by another such ballet, enacted on a bridge above them, which ended with Leandro stabbing Pierrot, in Columbine's embrace, at the moment when below them, but pretty well unnoticed, Renato stabbed Riccardo.

In the final tableau – where Verdi prescribes a tense grouping of the dying ruler, Amelia, and Renato – Riccardo planted a dying kiss on Oscar, and Amelia and Renato were reduced to cipher bystanders.

Earlier on there were a few jokes: Pavarotti waddling on, stately, undignified, and enormous, through his allegro entrance music; Aprile Millo, as Amelia, entering Ulrica's den and emoting in a profusely plumed picture hat; an Oscar, Harolyn Blackwell, discomfited by headgear that kept falling off; Juan Pons, Renato, crying "Siam soli" to Sam and Tom when they were there with a posse of retainers; Riccardo singing the intimate "Ma se m'è forzaperdarti" to a corps of eight footmen.

Perhaps it was Faggioni's idea to ridicule Verdi's opera, and the whole idea of opera, and the Met, and a Met gala audience so ignorant and uncouth that it applauded not only the scenery and the stars' entrances but also the first verses of Oscar's arias while the second verses began. If so, this was a not merely perverse but also an expensive form of mockery. And it misfired: the audience took it seriously and thought it wonderful.

The production was lavish and was evidently costly. The brief final scene, the masked ball, looked like an attempt to outZeffirelli Zeffirelli in dimensions and in populace. It was enormous, and thronged. And that was where disgust set in – in this rotting, corrupt, slum city with its hungry, homeless, hopeless people.

Art is always expensive, and opera is an extravagance, but there is no need to argue the justifications for expenditure on art, and on opera, before condemning the "conspicuous waste" of this *Ballo*. It was an offence against Verdi, and its lavishness was anti-artistic, deployed in ways destructive to any serious consideration of a drama about a ruler's responsibility in a time of crisis and about the conflict of personal inclination and public duty.

The lavishness was not even spectacular or distinguished in the Zeffirelli manner. The sets (the location was Stockholm, not Boston) were huge but they were ugly, confused, drab, and underlit. Within them, the singers gave self-serving performances – all but Pons, who is no great baritone but did occasionally seem aware that he was not the only person on the stage.

Pavarotti just stood and delivered. He opened the love duet (marked *a mezzavoce, pianissimo*) as if it were a try-out for his forthcoming Otello. His shouty delivery no longer has the old, liquid, beguiling beauty of tone and utterance. He should spend time with the Gigli recording. It was unkind of Faggioni to devise many-stepped scenes; one kept wondering and watching to see whether Pavarotti would leave the flat central strip, while the others ranged more freely.

Miss Millo seemed to have overlooked the long slurs that Verdi wrote over much of Amelia's music, and she bumped through some long phrases that cry for portamento smoothness. She produced a passable imitation of being a great Verdi soprano without actually being one. The voice of Obraztsova, the Ulrica, was in tatters, banging out the lower notes and striving for those above.

James Levine presided over this deplorable affair.

Andrew Porter

BOOK REVIEW

Marie Lloyd

MARIE LLOYD
by Richard Anthony Baker
Hale £13.95, 192 pages

T.S. Eliot considered her the greatest of the music hall stars. Shaw thought her better than her material. Arnold Bennett was shocked. So what was she like? Photographs and eyewitness reports suggest the toothy bonhomie of Cilla Black, the coy knowingness of Barbara Windsor, the attack of Georgia Brown. The weakness of this new biography is that it leaves us no nearer understanding the secret of Marie Lloyd's appeal.

She seems to have been rude, genuinely rude; the accounts of the anti-music hall clean-up campaigns of the day make hilarious reading. The Americans were scandalised not merely by her act but her private life, even clapping her into detention on Ellis Island at the height of her fame, like any unsavoury immigrant, on finding that she had crossed the Atlantic in connubial bliss with a man she had omitted to marry. With respect to Macaulay, when it comes to looking ridiculous the American public in one of its periodical fits of morality leaves the British standing.

Mr Baker's book is a clear chronicle of Matilda Alice Victoria Wood's career, avoiding deep analysis or even speculation (her frequent unspecified illnesses, for example, are not identified). The popular stage, like sport, provided common ground for low life and aristocracy, with the respectable middle class not quite sure how to react. Marie's three marriages – to toff, theatrical gent and violent ex-jockey – sum up the social flexibility. All were failures, as much through her own cheerful wilfulness as her husbands' shortcomings.

Intriguing sidelights are cast on the hard grind that a successful career entailed – no wonder Dan Leno died mad at 43. He had "the saddest eyes in the whole world", according to Marie. "That's why we laughed at Danny. If we hadn't laughed, we should have cried ourselves sick."

Marie's fighting spirit alienated managements, helped theatre strikes and gave a rough time to scabs like Belle Elmore, a "second-rate singer" unfortunate in more ways than one. Marie disliked Belle's husband who constantly cadged half-crowns for drink; but that, it transpired, was the least of Dr Crippen's anti-social tendencies.

Revue and the cinema had edged music hall into an irreversible decline by the time Marie reached middle age. A series of personal and professional disappointments – the snub of omission from the first Royal Command Variety Performance (those managements had long and vengeful memories) aged the star in parallel with the art she loved. Virginia Woolf notes Marie at 50, battered and arthritic, with characteristically fastidious cruelty: "a mass of corruption . . . waddling, aged, unblushing . . . She is beaten nightly by her husband."

Excellent appendices deal with those unsung (except in the literal sense) heroes, the song-writers, none of whom made much money from adding catch-phrases to the language or setting the world whistling; and the entire list of theatres played by Marie Lloyd throughout Britain, from the Aldershot Hippodrome to the Empire, York.

This fascinating section reveals that a few temples survive to that popular art with its very English brand of naughtiness put over with wide-eyed innocence and wicked intent.

Martin Hoyle

ARTS GUIDE

October 26-November 1

MUSIC, OPERA AND BALLET

London

BBC Symphony Orchestra. Stephen Hough (piano), David Wilson-Johnson (baritone). Gerhard, Bartok and Messiaen. Andrew Davis conducts (today). Royal Festival Hall.
National Association of Young Chamber Music Players conducted by Sir Colin Davis. Purcell, Mozart, Brahms, Schubert and others (Tue). Barbican.
Vienna Philharmonic conducted by Riccardo Muti. Beethoven, Brahms (Wed). Royal Festival Hall.
Tippett/Beethoven played by the Bach Choir and Philharmonia (Tue, Wed). Queen Elizabeth Hall.
London Symphony Orchestra conducted by Sir Colin Davis. Mozart, Mahler (Thur). Barbican.
Royal Opera, Covent Garden: Verdi's *Attila* conducted by Edward Downes.
English National Opera, Coliseum: Revival of David Pountney's 1986 production of Busoni's *Dr Faust*, conducted by Antony Beaumont.
Royal Ballet, Covent Garden: *The Planets* and *Enclosure*, plus *Elite Syncopations* (Mon).

Paris

Paris Opera Orchestra conducted by Myung-Whun Chung: Haydn, Prokofiev (Mon-Wed). Bastille Opera (40011616).
Vienna Philharmonic Orchestra conducted by Riccardo Muti: Beethoven, Brahms (Tue). Salle Pleyel (45638873).
Ann Murray and Graham Johnson: Schubert, Schumann, Berlioz (Tue 7pm). Auditorium-Chatelet (40282840).
Ballet Frankfurt presents the premiere of *Slingerland*. (40 28 28 40). Téatre des Champs Elysées.
Giasone. Three-act opera to Francesco Cavalli's music (47 20 36 37).

Frankfurt

Ludwig Guettler and Friedrich Kircheis: Jean Baptiste Loeillet, Stradella, Bach and Buxtehude. Alte Opera (Tue).
Leipzig Gewandhaus Orchestra under Kurt Mazur plays Brahms (today, Tue).

Brussels

Monnaie Opera in Hans Zender's *Stephen Climax* conducted by Sylvain Cambreling. Theatre Royal de la Monnaie. (Wed 8pm).

Amsterdam

English Chamber Orchestra conducted by Jeffrey Tate. Pianist Mitsuko Uchida plays Beethoven (Tue). Concertgebouw.
Royal Concertgebouw Orchestra members: Casella, Malipiero, Berio, Respighi, Rota (Thur). Concertgebouw.
National Ballet with *Under my Feet*, *Pyrrhic Dances II* and a new ballet by Jan Linkens. (Tue and Wed). Muziektheater.

The Hague

Nederlands Dans Theater with *La Cathédrale Engloutie* and the world premieres of new ballets by Philip Taylor and Jean-Christophe Maillot. (not Mon).

Utrecht

Melos Quartet play Hindemith, Mozart and Janáček (Tue). Vredenburg.
Netherlands Philharmonic with Eliane Rodrigues (piano): Mendelssohn, Beethoven, Schumann (Thur). Vredenburg.

Brussels

Il Fondamento Baroque Orchestra conducted by Paul Dombrecht performs La Fede Sacrilega with the Currende Chorus and Marie-Noelle de Callatay (today 8.30pm). Maison de la Radio.
Barbara Hendricks, accompanied by Staffan Scheja, sings Brahms, Dvorak, Liszt, Mozart and Schumann. Palais des Beaux-Arts (Tue 8pm).
Dizzy Gillespie and the United Nation Orchestra. Palais des Beaux-Arts (Thur 8.30pm).

Madrid

Spanish National Orchestra and choir conducted by Antonio Ros Marba, with Sabine Hass and Barbara Bornemann. Wagner programme (Wed). Auditorio Nacional de Musica (337 01 00).

Barcelona

Brigitte Fassbaender with Wolfram Rieger (piano). Schumann, Brahms (Tue). Palau de la Musica Catalana (268 10 00).
Donizetti's *Roberto Devereux*, in a new production conducted by Richard Bonynge. Gran Teatre del Liceu. (412 14 65).

Bologna

Les Percussions de Strasbourg playing Mesias Maiguashca and Yannis Xenakis (today). Teatro Comunale (523999).
The Nutcracker. Amedeo Amodio's version conducted by David Garforth. Teatro Comunale (Tue, Wed). (52 99 99).
Maria Tipo plays Beethoven's fourth piano concerto with the Italian Youth Orchestra conducted by Gyorgy Gyorivanyi (Thur). Teatro alla Scala (80 91 26)

Rome

Luciano Berio conducts his own La Vera Storia (text by Italo Calvino). (today, Tue). Auditorium, Via della Conciliazione (654 1044).
Gonfalone Chamber Orchestra conducted by Alberto Maria Giuri. Organ concertos by Bach, Handel, Corrette and Karl Philipp Emanuel Bach, with organist Concezio Panone (Thur). Oratorio del Gonfalone (68.75.952).
Gregorian plainsong conducted by Pablo Colino (Thur). Church of St Ignazio (393304).

Genoa

La Sonnambula. Mattia Testa's production made for the Teatro la Fenice in Venice, with Luciana Serra as Amina, Pietro Ballo as Elvino and Carlo Striuli as Count Rodolfo, conducted by Eugene Kohn. Teatro Margherita. (589.239).

Chicago

Lyric Opera. Frank Galati directs a new production of Argento's *The Voyage of Edgar Allan Poe*, with libretto by Charles Nolte. Harold Prince's production of *The Girl of the Golden West* continues, conducted by Bruno Bartoletti. Civic Opera House (332 2244).

New York

London Classical Players conducted by Roger Norrington. Beethoven, Mendelssohn (today). Avery Fisher Hall, Lincoln Center (874 6770).
Leningrad Philharmonic conducted by Yuri Temirkanov. Prokofiev and Tchaikovsky (until Thur). Carnegie Hall (247 7400).
New York Philharmonic conducted by Erich Leinsdorf with Alicia De Larrocha (piano). Wagner, Mozart, Falla, Ravel (Tue); Erich Leinsdorf conducting. Stravinksy, Debussy, Beethoven (Thur). Avery Fisher Hall, Lincoln Center (874 6770).
New York Philomusica conducted by Robert Johnson. Hamilton, Harbison, Schubert (Thur). Merkin Hall (362 8719).
Metropolitan Opera. James Levine conducts Arvin Brown's production of *Porgy and Bess*. He also conducts Piero Faggioni's production of *Un Ballo in Maschera*. *Boris Godunov*, conducted by Yevgeny Svetlanov. Guido Ajmone-Marsan conducts *Rigoletto* with Jerry Hadley. (362 6000).
New York City Opera. John Lehmeyer's production of *Martha*, conducted by Arthur Fagen. The week also includes Scott Ellis's production of Sondheim's *A Little Night Music*, *La Boheme* and *La Fanciulla del West*. New York State Theatre, Lincoln Center (870 5570).

Washington

National Symphony conducted by Mstislav Rostropovich with James Galway (flute), Toshiko Kohno (flute). Weber, Khatchaturian, Frescobaldi, Cimarosa, Tchaikovsky (Thur). Concert Hall, Kennedy Center (467 4600).

Chicago

Chicago Symphony Orchestra conducted by Lorin Maazel with Frank Peter Zimmermann and the Chicago Symphony Chorus. Holst, Prokofiev (Tue); Leonard Slatkin conducting with Barbara Nissman (piano). Carpenter, Ginastera, Mussorgsky (Thur). Orchestra Hall (435 3122).

Tokyo

Tokyo Metropolitan Symphony Orchestra conducted by Hiroshi Wakasugi. Schubert programme. Tokyo Bunka Kaikan (today) (882 0727).
Cleveland Quartet: Mozart, Barber, Schubert, Beethoven. Casals Hall (Wed). (403 8011).
Cincinnati Symphony Orchestra, conducted by Jesus Lopez-Cobos: Ravel, Bizet, Dvorak (Tue); Ravel, Tchaikovsky (Wed). Suntory Hall (505 1010).
Deutsche Staatsoper, Berlin: Gala Concert. NHK Hall (Wed) (241 8111).
Martha Graham Dance Company. *Temptations of the Moon, Dark Meadow, Acts of Light* (today). *Temptations of the Moon, Herodiade, Night Journey, Acts of Light* (Tue). Shinjuku Bunka Centre (350 0031).
Bejart Ballet Lausanne. *Ring Um Den Ring*. New ballet/spectacle by Maurice Bejart, based on Wagner. Tokyo Bunka Kaikan (Mon-Thur) (725 8888).
Deutsche Staatsoper, Berlin. *Tristan und Isolde*. NHK Hall (Thur) (235 1661).

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EC's mistaken priorities

THE HEADS of government of the European Community met in Rome as 12 leaders in search of an agenda. One was handed to them on a platter by the failure of EC farm and trade ministers to agree on a negotiating position on agricultural reform in the Uruguay Round of multilateral trade negotiations. Whereupon the 12 decided to fiddle in Rome, leaving the problem of farm reform to burn.

Many will argue that what the heads of government did in Rome justified their voyage. After all, the leaders issued communiques about the Middle East and promised both to study aid to eastern Europe and to consider humanitarian assistance to the Soviet Union. More strikingly, they agreed on conditions for a transition to the second stage of economic and monetary union, now expected to occur in January, 1994. Moreover, "at the latest three years after the start of stage two" there would be a review of progress on monetary union "to enable the decision to move to stage three to be taken within a reasonable time period".

Set next to charting the EC's monetary future until 1997 or later, the collapse of the Uruguay Round in little over a month is perhaps too proximate to have deserved the leaders' attention. Alternatively, they may think it too trivial. If so, they are wrong.

Self-interest

The Commission has produced detailed analyses of the economic benefits of the programme to complete the internal market and, less than two weeks ago, no less than 350 pages on the merits of Emu. Because the Commission's resort to economics is strictly self-interested, no comparable work has been done on the benefits of liberal external trade in general, and of liberalising the common agricultural policy (CAP) in particular, though both topics are quite as amenable to such analysis as is Emu.

Any such analysis would almost certainly have concluded that the economic benefits of Emu would be dwarfed by those of a comprehensive liberalisation of external trade. They might be exceeded by the benefits of liberalising the CAP alone. Neither proposition is all that surprising: the EC's steepest barriers to commerce are external, not internal, while the benefit of any liberalisation is largely a function of the height of the barriers to be liberalised.

Trade bog

If economics cannot be called in aid, perhaps politics justified the priority accorded this weekend to planning a route to the distant mountains of Emu over escaping from the trade bog in which the EC finds itself. This view, too, is mistaken. As the Commission itself remarks in the introduction to its proposals on Emu, "the Community will not be able to put plans [for economic and monetary union and political union] into effect unless it . . . lays the foundations for the new system of international relations in which history has reserved for it, if it has the will and the means, an important role alongside the other great world powers."

Yet it is trade that will in large measure determine the nature of the EC's relations with eastern Europe and the Soviet Union, with the developing countries, with the flourishing economies of east Asia and with the other economic superpowers, the US and Japan. What then is told to the rest of the world by the EC's persistent devotion to the principles of the CAP? What is told by the inability of the EC to agree, at past the last hour, on a negotiating proposal which entails a further reduction of perhaps only 15 per cent in aggregate farm support? What is told by the EC's apparent willingness to see the Uruguay Round collapse? The tale is one of short-sightedness, folly and indifference.

December will be eventful. It will see the German elections, the end of the Uruguay Round in Brussels and the opening of the EC's two inter-governmental conferences. If the EC does not change its priorities soon, the Uruguay Round will first unravel, not inappropriately, in Brussels. The EC will then be able to examine its economic, monetary and political navel, all the while watching the international trading system disintegrate around it.

Time to reform A-levels

DOWNING Street appears to be obstructing reform of Britain's sixth form education as resolutely as it opposed membership of the European exchange rate mechanism. The prime minister reportedly regards Advanced (A) level examinations as an educational "gold standard" that must not be devalued.

Two years ago, the Higginson committee's cogent plans for broadening sixth form education were summarily rejected. Similar reforms are now being urged by the Schools Examination and Advisory Council (SEAC), which advises the government on curriculum matters. SEAC wants sixth form students to study five or six subjects, instead of the customary two or three A-levels. It wants more emphasis placed on skill acquisition, and course work to play an important role in determining a student's final grade.

This package of reforms is aimed at curbing premature specialisation and boosting staying-on rates. It is undoubtedly a step in the right direction, and has been widely welcomed by schools, universities and industry. Yet the government appears likely to reject the proposals as an erosion of the supposedly high standards guaranteed by traditional A-levels.

Strong start

The most powerful case for A-levels is made by head teachers in the independent sector, many of whom achieve outstanding academic results. They point out that students achieving high grades in A-levels attain standards not reached in most other countries until the early years of university. This strong start allows the brightest students to achieve exceptionally high standards in undergraduate degree courses that remain the shortest in the industrial world. Scrap A-levels, they argue, and you not only throw away a uniquely rigorous school exam, you undermine the entire university system.

This superficially plausible argument needs to be confronted head on. A-level students achieve high standards in individual subjects only by dint of excessive specialisation. In continental Europe, Japan, and the US, a curriculum that allowed 16 to 19 year olds to specialise exclusively in maths and science or in languages and literature would be regarded as absurd. There is no virtue in turning out engineers who cannot communicate or arts specialists who can barely calculate percentages. On the contrary, it is now widely recognised that a broadly based education, embracing literature, languages, and natural and social science is the best preparation for life and work.

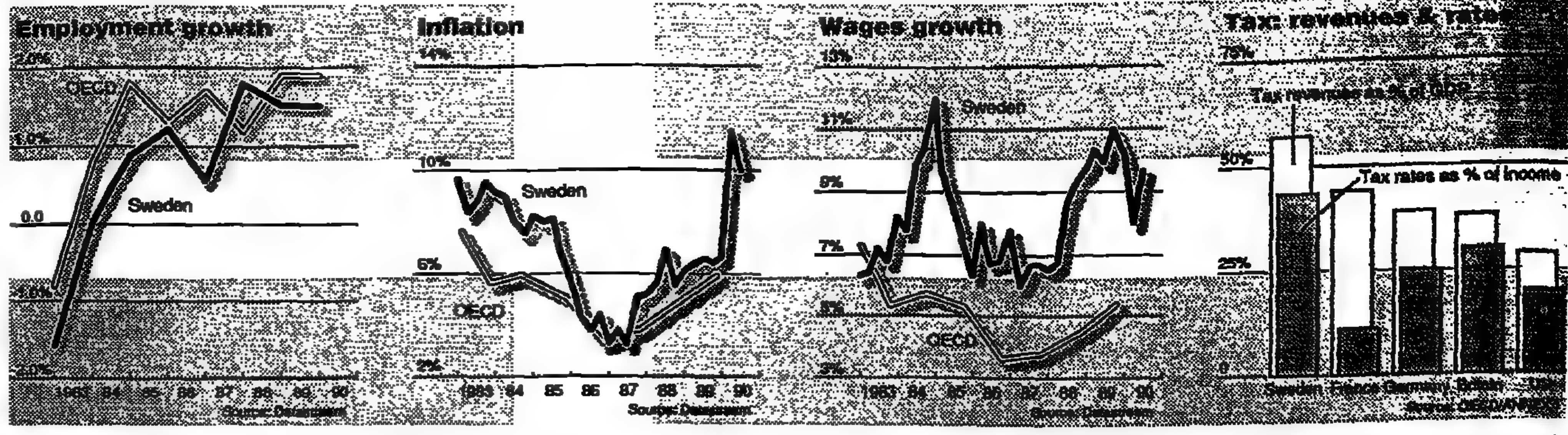
Compelling argument

But there is an even more compelling argument against A-levels. It is that the UK can no longer afford the social and economic costs of educational elitism. A system that fails to cater for the bottom 80 per cent of the ability range and offers no recognition for vocational achievement ought to have been scrapped decades ago. It is certainly out of place in the 1990s, when economic performance is influenced more by the skills and ability of the work force as a whole than by the academic prowess of an intellectual elite.

What Britain needs is a broad baccalaureate-style exam, offering a range of academic and vocational courses designed to challenge students of all tastes and abilities. Overseas experience suggests that this is a perfectly feasible objective.

Critics in the independent sector are right to point out that broader courses in sixth forms would require reform within universities. But curriculum change in higher education is long overdue: Britain needs to move into step with the rest of the developed world by providing broader and longer degree courses – as well as greater opportunities for specialised postgraduate study. If necessary, the cost of such beneficial changes should be partially recouped by imposing modest fees on middle-class students.

Anachronisms in higher education must not be allowed to obstruct essential restructuring of education for 16 to 19 year olds. It is time to address the educational needs of the average, as well as the exceptional, sixth form pupil.



Sweden's new austerity measures may not be enough to revivify an economy which has been looking increasingly sclerotic. **Robert Taylor** reports

End to old go-it-alone illusions

Sweden's famous economic Model – the envy of the world for more than half a century – is dead. It passed away last Friday afternoon as its authors – the ruling Social Democratic party – announced a Skr15bn (£1.4bn) cuts package which trims health benefits and reduces the size of the state bureaucracy. Even Sweden can no longer live with the old illusion that it can pursue a national economic policy based on Keynesian principles of demand management.

The outside world is now dictating what it can and cannot do. Under intense pressure from overseas financial opinion that forced up interest rates to 17 per cent nine days ago and led to a huge outflow of capital from Sweden, the Swedish government is having to abandon a long-held belief that the commitment to full employment and the defence of the welfare state should be over-riding priorities.

Over the next few days the money markets will decide whether the austerity measures are sufficient to restore international confidence in the health of the country's economy and dispel suggestions that the currency will be devalued.

The omens do not look good. The cuts are far less than the SKr25bn originally forecast, amounting to under 2 per cent of the total budget. Many Swedish industrialists and financiers expressed their doubts and disappointment over the weekend. What looks draconian to Sweden's ruling Social Democratic party is likely to seem modest to more hard-headed overseas business opinion.

But neither Prime Minister Ingvar Carlsson nor his finance minister, Mr Allan Larsson, can be in any doubt that their package – hastily cobbled together over a week – can only be the start, not the conclusion, of what promises to be Sweden's painful but necessary adjustment to economic reality.

Now it is the international money markets which have become the arbiters of Sweden's future, not the Social Democratic ideologues who built up the famed Swedish Model of economic management. "For the first time since they came to power in 1932 the Social Democrats have agreed to cut public spending in an economic downturn. The markets have forced them to act", says Mr Klaus Eklund, a leading Social Democrat economist who used to work at the Ministry of Finance.

The package is also aimed at keeping Sweden's budget balanced for the coming year; the government recognises that the return of a budget deficit would further shake confidence.

A bitter reaction to the cuts package may soon come from many people in the once dominant but now demoralised trade union movement who find it difficult to come to terms with the onset of hard times and who believe that Sweden can somehow still go it alone. The size of the public spending cuts – which will, among other changes, reduce the value of sick benefits for the first three days of illness in the case of children as well as adults – is perhaps less important to the party faithful than a recognition of the policy shift.

There is a depressing familiarity about this for anybody who remembers the experience of the last Labour government in Britain between 1975 and 1979 and the Mitterrand economic experiment of reflation in France during the early 1980s. Sweden has been compelled to accept its economic troubles can only be solved with the support of international markets.

Indeed, the package's declaration that Sweden wishes to join the European Community may turn out to be its most important ingredient. It is an attempt to reassure the markets that Sweden intends to move rapidly into the EC – perhaps by early 1993 – with all the financial disciplines that this would involve.

In their new warmth for the EC, the Social Democrats can at least expect to carry Swedish public opinion. A change in attitudes to the EC has occurred over the past six months following German unification, the end of the Cold War and the erosion of the military blocs. Neutrality – until recently seen as a formidable obstacle to Swedish EC membership – looks increasingly irrelevant.

The speed with which outside events in Europe have forced themselves on to Sweden's settled ways is placing enormous strains on its social stability and cohesion because it threatens many powerful vested interests in the public sector. As Sweden rejoins Europe's mainstream, it is going through what is turning into a painful period of transition, perhaps the most profound it has known since its own industrial revolution.

Since the early 1930s Swedish policymakers have developed their own separate response to economic management. To the admiration of many on the democratic left they seemed to have created a successful society which guaranteed full employment and a comprehensive welfare state founded on the back of a highly redistributive tax system and egalitarian, centralised wage bargaining.

A dynamic labour market strategy of training and redeployment and a tight fiscal policy caused the resulting Swedish Model to be hailed as a successful blend of the free market and social justice.

But the fully-fledged Model worked successfully only for a relatively short period – from the late 1940s until the end of the 1960s. It did so through an "historic compromise" between capital and labour which accepted the peaceful co-existence of a thriving private industrial sector and strong, responsible trade unions. The Model was held together by a genuine social consensus, based on self-discipline and a feeling of worker solidarity.

From 1970 onwards the consensus grew more difficult to preserve. Indeed, the Swedish economy began to reveal alarming signs of sclerosis. Its growth rate – which, apart from Japan's, had been the best in the western industrialised world since the 1890s – began to falter. Productivity became sluggish. The balance of payments fell into deficit. Increasingly Sweden's basic industries grew uncompetitive and inflexible to change. Above all, wage and price inflation in a tight labour market undermined its international competitiveness.

The international money markets have become the arbiters of the country's future prosperity

At the same time, the country's public sector, relative to all other types of economic activity, grew into the largest in the world. There was a corresponding growth in the proportion of the gross domestic product devoted to public expenditure; this climbed to just over 60 per cent by the early 1980s. Today, more than one in three of Sweden's workers is employed in the public service sector, mainly in local government, health and education.

Many economists believe Sweden's public sector jobs expansion crowded out the market economy. They argue that a connection exists between the country's relatively poor post-1970 economic performance and its huge, insatiable public sector.

Traditionally, Sweden's policymakers escaped from their troubles through strategic currency devaluations. This was the pattern from 1931 until the 16 per cent cut in the value of the Krona in September 1982.

Now such a strategy looks inconceivable without inflicting severe damage on Sweden's international credibility. Nor would it do anything to cure its underlying economic ills.

Under the direction of Mr Kjell-Olof Feldt, the then finance minister, after September 1982, the country deregulated its protected financial system. It abolished foreign exchange controls in July 1989.

The objective was clear – to internationalise the Swedish economy and open it to the creative stimulus of global pressures. The country's financial integration into the world economy was paralleled in the past two years by a rapid move by Swedish industry into the EC, exemplified by the rising outward flow of investment to western Europe by the larger companies.

Unfortunately, Mr Feldt's liberal policies did not initiate any complementary industrial restructuring or social measures designed to reform the public sector.

The trade unions fought against Mr Feldt all the way and his views aroused predictable uproar from vested interests across the public sector. As a result, he was forced at times to compromise his own better judgment, though financial retrenchment has been much greater than many outsiders realise.

For a time it did not seem to matter. The 1982 devaluation coincided with an upturn in world trade and boosted Swedish industry so it looked as though the country's economic revival was based on sound foundations and structural change was less urgently needed.

From late 1988 there was a rapid deterioration in Sweden's balance of payments deficit, sluggish growth, and above all the return of a familiar bout of self-destructive, wage-push price inflation coupled with stagnant productivity in an overheated labour market.

Mr Feldt wanted to cool demand in the spring of 1989 but the unions attacked him and he failed to win political support. Last February, he finally resigned in exasperation after parliament rejected a planned two-year freeze on wage, price and dividend increases.

Now his successor, Mr Larsson, has been compelled in even more difficult circumstances to act and, in acting, to sacrifice in the process ideological assumptions that have dominated Social Democracy since the 1930s.

Ministers cannot say so but full employment is no longer the over-riding priority of economic policymaking the way it was from the Great Depression to the recent past. At present, Sweden has a registered rate of joblessness of a mere 1.5 per cent, one of the lowest in the western world, but this can be expected to climb sharply by the end of next year.

Moreover, Mr Larsson has admitted openly that Sweden must reduce the proportion of its GDP devoted to the public sector. In fact, the country's huge public sector is about to be reformed radically with the introduction of private initiatives in health and child-care services, as well as the partial privatisation of state industries and utilities such as telecommunications and electricity supply.

The government also intends to remove the existing legal protections that hamper the flow of investment into the country by opening Swedish companies to the possibility of foreign ownership. It will seek to remove the last bastions of agricultural protectionism and to introduce greater competition into retail trade. The consumer is at last to replace the producer in Sweden as the power in the marketplace.

In January, the country's tax reform will come into force. This is designed to encourage greater personal choice and to increase individual incentives to work and save. Yet more will be needed. The Social Democrats are going to have to modify their belief in high levels of taxation and bring Sweden more into line with the lower rates enjoyed by the rest of western Europe.

Most Swedes do not yet realise the magnitude of the changes to their cherished way of life which they will have to accept over the next few years. An alarmingly wide gap in perception exists between the policymakers and the electorate.

Sweden's once stable political system is fragmenting. The ruling Social Democrats govern without a parliamentary majority. Their poll rating is down to only 32 per cent, with the next general election a mere 11 months away. At the same time, the opposition remains divided, more by personalities than policy.

Governing Sweden is much more difficult than it used to be at a time when its economic troubles require strong united political leadership. The latest crisis looks like being just an episode in the unfolding drama of the end to Sweden's isolation.

OBSERVER

Worlds of meaning

■ The conference of Britain's Institute of Personnel Management has just brought to light a likely new star of the world's management seminar circuit. He is Fons Trompenaars, a 37-year-old consultant advising international companies about cultural differences between countries.

Working with David Wheatley of the London-based consultancy, Employment Conditions Abroad, he has questioned thousands of business people from a mix of 27 nations about their attitudes to such things as work, social responsibility, and time.

As a result, for instance, he says the Dutch and Germans can be expected to turn up for a meeting exactly on cue. Brits and Americans will probably arrive inside five minutes either way, and Italians and Spanish inside 15. The French, however, are usually late, and with Arabs and Africans anything goes.

Besides possessing a wealth of information, the half-Dutch half-French Trompenaars has a rare talent for presenting it palatably. Here he is on differences in friendliness to strangers:

"If you stand in Paris reading a tourist map and looking puzzled, you can stay there three months and nobody will come near. In Philadelphia, within seconds people are marching up wanting to help. As for New York, don't try it – they'll steal your map."

Silver lining

■ The current European Community marathon over farm subsidies, reminiscent of some of the great agricultural price battles of the early and mid 1980s, may have cast a dark cloud over the trade talks known as the Uruguay Round. But for the Grand Duchy of Luxembourg at least there is a valuable silver lining.

Under rules which go back more than 20 years all meetings of the Council of Ministers scheduled for April, June and October take place automatically in the EC's tiniest member state (area: 999 square miles) rather than in the Council's more familiar and more widely used headquarters, the Charlemagne building in Brussels.

Irish hopes

■ Stand by for a sporting miracle. On one hand, there is Lester Piggott, jockey extraordinaire, who, at the tender age of 55, is back in the saddle. On the other is the trilbied figure of Vincent O'Brien, 73, the Irish trainer, who, with more than 40 Classic winners to his credit, is a living icon of the racetrack.

On Saturday, the Piggott-O'Brien pairing won the $1m Breeders' Cup Mile at Belmont Park, New York, with a horse called Royal Academy. Last week, in a single afternoon's racing at the Curragh, outside Dublin, Piggott rode four winners for the O'Brien stable.

Piggott is a revered figure in Ireland and the Irish punting fraternity is ecstatic at the recent turn of events. Time was when the pairing swept all opposition aside, winning races with almost boring regularity including four Epsom Derbies. But recent years have not been so good.

Lester Piggott retired, then found himself jailed for tax offences. Meanwhile Vincent O'Brien was losing his winning touch. Classic Thoroughbreds, a public company started by O'Brien and other aficionados of the track to produce classic winners and sell them on to stud, has failed miserably.

At one stage Classic Thoroughbreds shares were 141p. Last week they were only 15p. Even with Lester Piggott

"Not quite the hurricane I was expecting."

in the saddle, it is unlikely that the O'Brien company fortunes will change.

However, that is not what concerns the Irish punter. Instead, he looks for a miracle of the turf. Lester Piggott, a few years short of his old-age pension, riding another Derby winner - out of the O'Brien stable.

Gold plate

■ "Ben", the UK motor trade's benevolent fund which looks after hundreds of the sector's sick and retired, is £25,000 better off thanks to a simple change of name by one of its supporting bodies.

Just under a year ago the Motor Agents Association, which represents thousands of the country's motor traders, became the Retail Motor Industry Federation. As that made redundant the association's flagship car number plate of more than 30 years, MAA 1, it was put on sale to the highest bidder.

Enter, waving cheque book, ADT, the vehicle auctions and electronic security group – or more precisely its chairman and president, one Michael Anthony Ashcroft.

Mis-belief

■ The powers-that-be in UK education feel confident of their job-security despite Margaret Thatcher's proposal to increase parents' clout by giving them vouchers to be "cashed" at schools of their choice.

The present establishment's confidence rests on the widespread belief that the last enthusiast for vouchers – Sir Keith (now Lord) Joseph when education secretary in the mid-1980s – rejected them because they would be impossible to administer.

In fact, his inquiries showed it would be perfectly feasible to organise a voucher scheme. His reason for scrapping the idea was political.

He decided it would be impracticable to experiment with vouchers in a few areas before introducing them full scale. The existing educational controllers' vested opposition to the change was such that they would make sure the experiments failed.

The only way of making the idea a reality was to put the vouchers into force nationwide at one stroke. And that would not be practicable unless the Tory party was united in favour of them, which it clearly was not.

Since it still isn't, the confidence of the powers-that-be seems justified. But they might do better to be confident for the right reason.

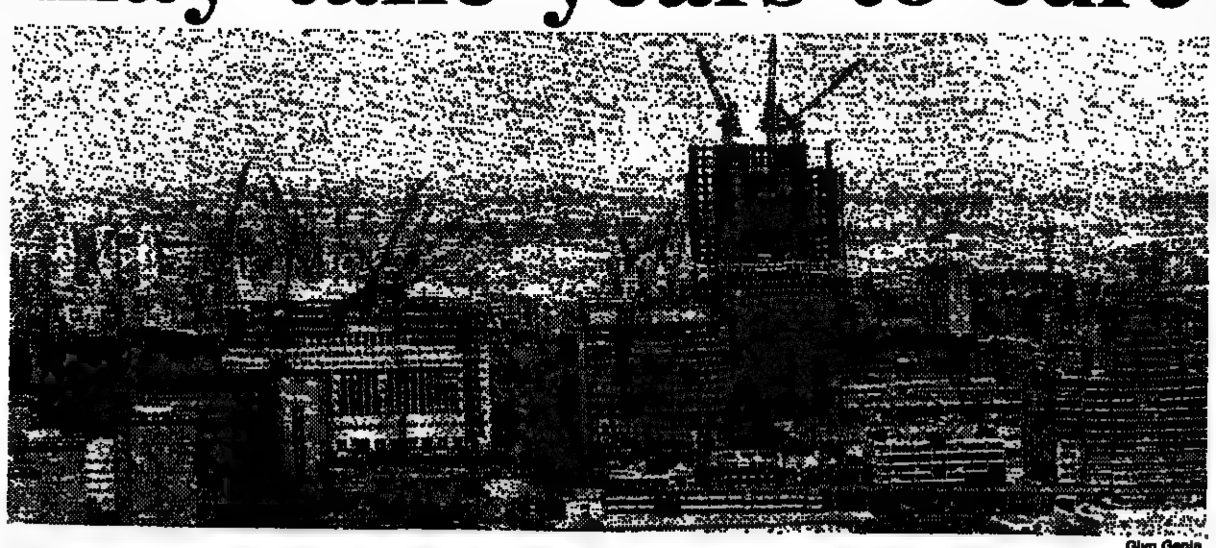
Final blow

■ A 21-year-old woman in Alabama has been gaoled for 20 years for killing her philandering common-law husband with a knife. She had evidently tried to dissuade him from having affairs in the same way before.

When asked by police how many times she'd stabbed him, she replied: "You mean today?"

Vanessa Houlder reports that the special conditions which supported London's property upswing have run their course

A deep malaise which may take years to cure



The activity at Canary Wharf testifies to the surge in property development from the City eastwards. Upstream on the Thames, however, there is evidence that the heyday of building offices is finished

Glyn Genin

Looking down the river from Charing Cross to Canary Wharf, the cranes that dominate the skyline testify to the greatest building bonanza that London has ever known.

Upstream, however, there is palpable evidence that the boom is over. County Hall, the imposing neo-classical building that used to be the seat of the Greater London Council stands empty after the collapse of plans to create of one of the largest post-war developments in central London.

Three weeks ago, the Anglo-Japanese consortium behind the proposed hotel, business centre and residential complex went into receivership, after failing to come up with the £185m it owed for the building.

In part, the failure of the deal can be blamed on planning delays and disarray among the consortium. But underlying the group's inability to come up with the cash is the deep malaise in the London property market.

When the plan was conceived two years ago, the market – buoyed by several years of soaring rents – reckoned that rents were heading for £60 per square foot. Now that looks absurdly optimistic. Taken together with falling property values, the project may be uneconomic.

The fate of the empty building and the forest of cranes further down the river are inextricably linked. "The main problem facing the property market is not high interest rates, or a lack of tenant demand but simply the huge volume of development work in progress," says John Atkins of UBS-Phillips & Drew.

The quantity of building work – and the vast acreages of surplus offices it engendered – has indeed been striking. There are now enough buildings on the market in Central London to accommodate all the office workers of Bristol. This is in stark contrast to the mid-1980s when there was a serious shortage of office space.

When the Docklands are included in the equation, the figures are even more worrying, although the area's transport problems help City developers play down its threat. Central London, including the Docklands, is due to expand a further 16.9 per cent in 1990 and 1991, according to Salomon Brothers, the securities house.

Periods of excess supply are relatively common in property markets, but the London surplus is unprecedented on this side of the Atlantic. It grew through an unusually potent mix of motives on the part of the banks, the developers, the City and the tenants. First, there was the obsolescence of most London offices, three quarters of which were built before 1980. The arrival of the personal computer created a need for new buildings with adequate floor voids, electrical capacity and air conditioning.

Second, there was strong demand for large, open-plan offices triggered by the surge in global financial services groups. This trend did not live up to expectations. "We did not know that there would be such a shake-out in the financial services industry", comments Mr James Tuckey, managing director of MEPC, one of the most active developers in Central London.

None the less, demand has not faded away. Solicitors and accountants are hungry for new office space, as demonstrated last week when Coopers & Lybrand Deloitte, the accounting firm, took Rosehaugh Stanhope's Ludgate development in the UK's largest letting.

Third, new tracts of land became available. The Docklands opened and the City felt threatened by the potential of an area that could offer modern offices at half the rent of the Square Mile. As a result, it relaxed its planning rules in 1986 to allow an additional 20m sq ft of office space.

Fourth, and perhaps most important, there were new sources of money for property companies. Overseas banks became increasingly aggressive property lenders, accounting for some 48 per cent of the £37bn in outstanding loans to UK property.

Moreover, new forms of financing, using off-balance sheet debt, allowed companies to undertake speculative developments, breaking with the tradition of pre-selling property to institutions, which, significantly, were showing tepid interest in property.

The importance of the growth of speculative development is immense. As Christopher Edwards of the Prudential puts it: "The developers manufactured their own appetite which did not recognise where long term demand was from."

This lack of foresight, combined with the feverish pace at which developers were planning new buildings, has culminated in the severest slump in 15 years.

The worst affected are developers who cannot let their properties. In the short term, much of the demand for modern office space is frustrated by the difficulty of disposing of old leases.

But even those who can find a tenant will be affected by oversupply as it will put pressure on rents. In the worst-hit area of the City of London rents have fallen by 10 per cent this year. In the view of Baker Harris Saunders, chartered surveyors, there will be no rental growth, above inflation, until the middle of the decade.

New techniques of financing, using off-balance sheet debt, allowed companies to go ahead with speculative developments

The poor outlook for rents bites two ways for the developer trying to sell the property. The price he will get depends both on the rent paid on the property and on the yield (the ratio of rent to capital value) demanded by the institutions.

Without the likelihood of good rental growth – and with high interest rates – there is little reason why institutions should invest in property rather then, say, gilts. The average yield, as measured by Hillier Parker, chartered surveyors, has overtaken that of the property slide of 1975 to stand at an all-time high of 8.7 per cent.

Bulls argue this could be a turning point. "A further round of base rate cuts will leave [property] looking very cheap indeed on mathematical grounds if nothing else", says Gareth Evans at Charterhouse Tilney.

But there may be other obstacles. Property yields have risen throughout the 1980s, suggesting a fundamental change of heart by the institutions. The percentage of institutional portfolios devoted to property has declined from 18 per cent to 11 per cent over the course of the 1980s.

At first, however, the sight of the UK players bailing out of the market was upstaged by the arrival of overseas money. Last year, the UK institutions sold £65.4m of property in Central London, while overseas investors invested about £3bn.

The Japanese life funds and construction companies made the boldest entrances, making lavish offers for large, prestigious buildings in central positions. A stream of Swedish money has also come into the UK, after the easing of restrictions by the Swedish Central Bank.

Many of these investors emphasise that they are taking a long term view. Given the pre-eminence of London as a financial centre and the security of the UK's lease structure, they believe that modern, centrally-located buildings will remain a valuable commodity, regardless of short-term fluctuations.

None the less, many analysts are convinced that overseas investment has peaked.

Particular attention is focused on the developers and construction companies that are financed by short-term debt. In addition to the strain inflicted by the rise in interest rates, they – and their bankers – may be deterred by their experience of book losses in the UK. The scale of the problems in UK property were brought home to the Swedish market when Nyckeln, a finance company, went into administration after large losses from its UK property lending.

But even if overseas investment continues the gap between the property on the market and available funds is yawning. Mr John Atkins of UBS Phillips & Drew calculates that if speculative development accounts for 30 per cent of bank lending, some £9bn of new property is being supplied to the property market each year. Assuming that overseas and UK institutional investment remained at last year's level, it would account for little more than half that needed.

This is a recipe for disaster, although one that will be confined to selected parts of the market. Developers with first-class offices in first-class locations will let and sell their properties comfortably; and well-established companies with ample cushions of investment income will be able to cope with falling asset values and empty properties with impunity.

But developers who bought land in the last couple of years, who worked on over-optimistic estimates of sale prices, who were delayed by last year's steel erectors' strike and who found their margins squeezed by the increase in interest rates, are in serious trouble.

So too are the banks which lent them the money. As much as £7bn is at risk, in the view of Ken Caesar, head of corporate recovery at Richard Ellis, chartered surveyors. The problem is exacerbated by the surge in bank lending that took place over the past couple of years, when developers were paying inflated land prices.

It is not yet clear how aggressive a stance the banks will take. Some evidence will emerge in the coming weeks as companies that failed to meet the interest bills due on the September Quarter Day go into receivership.

Fears that the banks will pull the rug from underneath property companies are heightened by the international nature of the lending at a time when almost every large property market round the world has problems. On the other hand, putting a company into receivership may not solve the banks' problems. If there are no buyers for the properties, they may be left in the banks' hands for some time to come.

Few people fear a re-run of the events of the early 1970s. There are no secondary banks on the scene and lenders have a smaller proportion of their loan book devoted to property. But given the current outlook, the property market may take years, not months, to recover.

LOMBARD

Adding value to exports

By Christopher Lorenz

FROM THE moment that Britain entered the European exchange rate mechanism in early October at the relatively high rate of DM2.95 to the pound, there has been much public worrying over the impact of the decision on UK exports. Virtually all of the comment has been about costs, productivity and prices. Hardly any attention has been paid to ways of coping with a strong currency by adding extra value to products and services.

The tenor of the whole debate was epitomised last week by a statement from the Confederation of British Industry. For the umpteenth time in the past 15 years it reduced the complex question of Britain's trading "competitiveness" to the simplistic issue of the level of sterling. Most economists fall into precisely the same trap.

Their myopia is not confined to the UK. In America, too, slight variations in the level of the dollar have for years been heralded as spelling automatically good or bad news for the country's trading prospects.

Yet, as the CBI itself has recognised publicly on rare occasions, few products other than pure commodities sell simply – or even mainly – on price these days. British and US customers, for capital as well as consumer goods, flock to buy German and Japanese products mainly because of various value-adding characteristics: what economists call "non-price factors", and marketing folk dub "differentiation".

Price certainly plays a part in international trade, ranging from major to minor. But so, in a growing number of products and markets, does a combination of non-price factors: speed and reliability of delivery and service; quality; and various facets of design, from performance features to appearance and even "feel".

In Britain, the importance of such factors in a wide range of sectors has been underlined by a string of research studies, starting with a seminal report by the National Economic Development Office as far back as 1977.

UK industry has not been entirely blind to this message. In the stiffening competitive wind of the early 1980s, many companies began to shed their notorious reputation for poor delivery and service. Then, in common with most other western countries, came a widespread awakening to the importance of quality.

Several years on, however, far too many UK companies still see quality as some sort of holy grail, rather than as what it has now become in many product markets: merely a necessary qualification for playing the competitive game, rather than a means of winning it.

On the other hand, the importance of design remains unappreciated by many UK manufacturers despite a decade of government campaigning – and despite design's manifest competitive force in the hands of the Germans, Japanese, Italians and Scandinavians.

One of the reasons Britain finds it so hard to make the best of such non-price factors is its deeply inbred tradition of selling low or medium-grade products at low prices. To change course requires a new set of strategies, investments and skills – and frequently new management too.

For a company to make the leap was difficult enough in the booming 1980s. Now, with domestic recession gaining an ever tighter grip and profits tumbling, it might seem too tall an order.

Yet there is no other route to competitive survival. Unit costs must certainly be cut further – total costs, not merely those for labour. But on the other side of the equation there must be much greater investment in the adding of extra value. On no account should companies follow their traditional, and dangerous, recession "strategy" of cutting back on the development of new products.

Nor, in time-honoured British fashion, should they set too much store by their current attempts to switch mundane existing products to export markets in order to compensate for domestic recession. What today's customers want, at home and abroad, is considerable added value at a reasonable price.

LETTERS

Time to replace the retail price index

From Mr Rhodri Morgan MP.

Sir, Most of the government's efforts post-entry to the exchange rate mechanism (ERM) to promote the need for all the economic players in the game to change their ways have concentrated on wage negotiators.

The strength of its persuasive message to them would be enormously increased if it took a lead itself in ousting the Retail Price Index from its own actions first and replacing it with some new basis for predicting post-ERM price movements.

In the privatisation of water last year and the electricity distribution companies this year the government is guaranteeing shareholders' returns with a price formula based on RPI plus 1 per cent or 2 per cent.

How does it expect to persuade Ford or Jaguar wage negotiators that increases of RPI plus 2 per cent are the road to ruin when it is still relying on precisely this formula in privatising our major public utilities?

Any dose of new realism which the government hopes to see, as the UK economy adjusts to life inside the ERM, will be very much diluted if the government persists in exempting privatisation stocks from it.

Electricity and water workers cannot surely be expected to detach themselves from the RPI while their shareholder owners are still attached.

Other groups of workers will read across from the settlements in the public utilities.

What the government ought to do is to call in the four utilities – water, electricity, gas, and telecommunications – and tell the chairmen that the RPI element in their annual price increase formula is to be replaced henceforth by a composite RPI for all 10 countries within the European Monetary System.

Government leadership based on this step would surely carry infinitely more weight than empty exhortations based on the "Do as I say, don't do as I do" principle.

Rhodri Morgan,
House of Commons,
Westminster, SW1

Objections to the duty free shop

From Mr Paul Ryan.

Sir, Stan Maiden writes from BAA (Letters, October 22) to claim that people shop duty free because it is cheaper than ordinary shopping, rather than because they are bored.

Perhaps, but so what? The role of lower prices is hardly controversial. The absence of duty means it is easy for BAA and its franchisees to offer moderate discounts on otherwise highly taxed items, notably alcohol and tobacco, and still make a handsome profit from the fiscal concession.

In any case, duty free shopping, as conducted at present, is open to two serious criticisms.

The first is that, given that duty free purchases are sold at the airport of departure or on the aircraft, much aviation fuel is wasted and more pollution is created by flying duty free purchases around the globe. If duty free sales are to continue, offering them after arrival rather than earlier would eliminate the extra fuel and pollution costs.

Such a change would incidentally reveal the role of boredom at present. Would travellers find it worthwhile to spend time shopping duty free when free to leave the airport and get on with their lives? I suspect that most would speed past the duty free shop and that BAA supports present practices because, without a partly captive and bored clientele, large sales at current mark-ups could no longer be expected.

But why continue duty free status anyway? The second objection to it involves fiscal fairness, where its claims are on a par with those of the poll tax.

Foreign travel may be less élitist than in the past, but the benefits of any increase in such a tax concession are still slanted heavily towards upper income groups – both as owners of BAA stock and as more frequent international travellers.

"One person's tax dodge is another's tax burden" here too.

Paul Ryan,
King's College,
Cambridge

The EC and high-tech industry

From Mr R.C. Whelan.

Sir, The policies of the European Community in supporting high-technology industries ("Power failure in high-tech," October 25) tend to encourage collaboration between natural competitors. Such forms of collaboration lead to a levelling down of the technology base of competition. The EC should be encouraging collaboration based on the customer-supplier linkages between companies, the so-called "vertical linkages" through which much technology becomes exploited in products and processes. Such links would enhance technology-based competition since they emphasise market orientation to research and development.

Many of the new issues facing European industry, such as environmental concerns, require quite new relationships to be established not only between companies, their suppliers and customers, but also between scientists and engineers if these concerns are to be turned into opportunities.

Your editorial concludes with the suggestion that the EC should perform an audit of its achievements in this area. It might also usefully consider whether high-tech industries are the most valuable ones to support. Some so-called conventional industries are more high-tech than you think and have the potential through science and technology to add more value to the Community.

R.C. Whelan,
chief executive,
Centre for Exploitation of Science and Technology,
5 Aztec Row,
Berners Road, N1

Trade union in pay talks

From Mr Jeremy Windust.

Sir, John Gapper's article ("W H Smith retail staff receive 4 per cent," October 16) brings welcome attention to the low pay levels in this sector. But I must make two points.

The Retail Book Association is referred to as the company's "staff association". The RBA has been in existence for over 70 years and is certified as an independent trade union. The term "staff association" implies that membership is restricted to one employer. No such restriction applies to the RBA which has members not just within W H Smith but also in rival bookselling organisations.

Second, the 4 per cent was reported as having been decided by the company without consulting the RBA. The reverse is true.

Pay negotiations took place between January and April this year, with the RBA conducting two ballots of its staff members in W H Smith before a settlement was reached. This settlement hinged around an agreement in principle to raise retail staff levels of pay in real terms over a period of time by interim increases, the first of which would be effective from September 1, while the main annual review date would continue to be February 1.

Jeremy Windust,
general secretary,
The Retail Book, Stationery, and Allied Trades Employees' Association,
8/9 Commercial Road,
Swindon, Wiltshire

BR's pay reform programme

From Mr Trevor Toolan.

Sir, The article ("Not quite full steam ahead towards reform," October 19) might have given the impression that the British Rail programme of pay reform now being undertaken is a recent innovation. As those familiar with changes of this nature will know, a long period of planning and joint discussion with the trade unions necessarily precedes final implementation.

Early in 1988 I received the approval of the BR board for a radical restructuring of the personnel function which involved decentralising most of my staff. The new personnel teams had responsibility for working with line managers to develop and negotiate the pay and productivity reforms referred to in your article.

Following the 1989 dispute, the trade unions became involved in detailed negotiations for each of the main railway groupings and many of these negotiations are now reaching completion.

Trevor Toolan,
managing director,
personnel,
British Railways Board,
Euston House,
24 Eversholt Street, NW1

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GULF CRISIS

Baker visit to bolster coalition against Iraq

By Lamis Andoni in Baghdad and Peter Riddell in Washington

MR JAMES Baker, the US Secretary of State, will visit Saudi Arabia later this week as part of a renewed US attempt to bolster the coalition against Iraq.

Confirmation of Mr Baker's trip follows concern within the Bush administration about signs of drift in the diplomatic drive against Baghdad and uncertainty produced by the shuttle diplomacy of Mr Yevgeny Primakov, the Soviet special envoy.

Uncertainty over the Soviet envoy's mission grew yesterday, when Mr Primakov unexpectedly added a second meeting in Baghdad late last night with Mr Saddam Hussein, the Iraqi president, following an hour of talks earlier in the day.

The announcement of the envoy's unscheduled meeting came after Mr Eduard Shevardnadze, the Soviet foreign minister, said in Moscow that there remained hope of a peaceful settlement to the Gulf crisis, but only if Iraq withdrew its forces from Kuwait.

"Primakov's mission is not the last hope," Mr Shevardnadze added, though he added it was hard to see how the crisis would be resolved.

Diplomats in Baghdad, meanwhile said, Mr Primakov, who was due to fly today to Saudi Arabia, may extend his stay in Baghdad pending the conclusion of talks today between Mr Francois Mitterand, the French president, and Mr Mikhail Gorbachev, his Soviet counterpart, who arrived in Paris last night.

Mr Gorbachev is due to sign a Franco-Soviet co-operation agreement with Mr Mitterand today, but is also expected to address the Gulf crisis in talks during his 24-hour stay.

In Baghdad, Iraqi officials said they were encouraged by what they viewed as a serious Soviet initiative to avert military confrontation in the Gulf, but refused to comment on details of Mr Saddam's meeting with the Soviet envoy.

Some Arab diplomats, however, suggested Mr Prikmakov was touting a plan which might entail a partial Iraqi withdrawal from Kuwait, adding that Iraq was hoping that the Franco-Soviet talks would assert a linkage between the Kuwait crisis and other Middle Eastern problems, notably the Arab-Israeli conflict.

On senior Arab diplomat said that the Iraqis had stressed in their talks with Mr Primakov that negotiations should preceed any withdrawal from Kuwait and that there should be direct talks between Iraq and the US, Britain and Saudi Arabia.

Western leaders have repeatedly ruled out a partial Iraqi withdrawal as unacceptable, and have admitted the possibility of talks either over Kuwait or broader Middle Eastern problems only after a full, unconditional Iraqi pull-out.

Bush asks Fed to cut interest rates

By Peter Riddell, US Editor in Washington

PRESIDENT George Bush, announcing he would "reluctantly" sign a $492bn five-year deficit reduction package approved by Congress over the weekend, appealed for the Federal Reserve to respond by lowering US interest rates.

The much-debated budget was at last passed by the Senate, 54 votes to 45, late on Saturday after the House of Representatives approved it at dawn by 228 votes to 200. In both houses a majority of Mr Bush's fellow Republicans voted against it.

Congress has now adjourned and both parties are manoeuvring to maximise political advantage before mid-term elections on November 6. Mr Bush has been damaged by the crisis, with his approval rating down to 48 per cent, according to a new Newsweek poll. This is the lowest level of his presidency and compares with more than 75 per cent in mid-August after the Gulf crisis began.

The final budget package differs in composition (higher taxes on the wealthy, a smaller increase in petrol tax and more limited savings on health provision) from the original bipartisan summit agreement rejected by the House, but it is similar in its overall forecast impact on the deficit.

This should be cut by $41.4bn in the 1991 fiscal year, which started nearly a month ago, and by $492bn over five years.

Mr Bush said the budget would be good medicine for the economy if interest rates came down and economic growth was stimulated.

Mr Alan Greenspan, the Fed chairman, greeted the original package as "credible" and suggested that the US central bank would respond to any favourable market reaction by cutting short-term rates.

Any reduction, however, is likely to be modest, possibly only a quarter or half a percentage point, because of the concern of many Fed policy makers about rising US inflation.

Mr Bush yesterday sought to distance himself from the budget package which raises taxes by a net $137bn over five years. He said that accepting tax increases was "a one-time compromise" and the price of divided government (with Democrats controlling Congress). He and other senior officials yesterday attacked Democrats for wanting to raise taxes.

Mr John Sununu, the White House chief of staff, admitted however that Republicans might lose "a handful or two handfuls" of seats in the House and be "plus or minus" two seats in the Senate.

Congress adjourned having also completed work on the most far-reaching clean air legislation since the late 1970s, a radical overhaul of US immigration laws and new child care assistance for poor working families.

The rescue of the savings and loan industry, however, is threatened because of a failure to approve legislation needed to grant it needed new funds. The pace of the rescue may slow almost to a halt until Congress returns early in the new year despite warnings that this may add billions of dollars to the eventual cost.

The long-debated clean air legislation will toughen pollution controls on car emissions, on power utilities burning high sulphur coal which produces acid rain, and on airborne toxins. It will require big changes in the motor, steel, chemical and coal industries.

The new immigration law will increase the number of immigrations into the US by nearly 40 per cent and will more than double the number allowed entry because of job skills.

US economy, Page 38

Amstrad threatens to abandon production in Britain

By Michael Skapinker

MR ALAN Sugar, chairman of Amstrad, has threatened to abandon the UK electronics group's recent policy of manufacturing in Britain if the European Community goes ahead with moves to stop software piracy.

He warned that UK computer manufacturing and design jobs could be lost to the Far East.

In a letter sent last week to Mr Peter Lilley, the trade and industry secretary, Mr Sugar said a UK amendment to a proposed directive would prevent the legitimate analysis of software design.

Under the UK government's new amendment, "reverse engineering" would be permitted for the creation of software programes and peripheral products which are attached to computers. However, it would not be permitted to create products which compete directly with those being examined.

Such analysis was essential if companies such as his own were to produce equipment compatible with that of large manufacturers such as IBM of the US, Mr Sugar said.

He accused the British government of being the prime mover behind the software move. He asked the DTI to ensure that the UK representative at Wednesday's Council of Ministers meeting in Brussels withdraws the proposal.

Mr Sugar said computer and software engineers had always used reverse engineering to establish how the products of the large manufacturers work. "No one has ever stopped them so long as the end result of what they produced was not in breach of copyright or patent." Software piracy could be dealt with adequately under existing law, he said.

Although Mr Sugar built up his group by making products cheaply in the Far East, much of Amstrad's manufacturing is now done in Britain by other UK groups. Amstrad's personal computers, for instance, are made in Scotland by GPT, the telecommunications company.

If the proposed directive is accepted, "the jobs in Scotland that we have created will go and we'll have to resort to manufacturing in the Far East," Mr Sugar said. "Hardly a situation I would expect the British government to sponsor."

The DTI yesterday refused to comment specifically on Mr Sugar's letter. A spokeswoman said, however, that companies which are carrying out legitimate examination of software would be able to continue to do so. "We agree with the EC that copyright protection needs to be strengthened, but without trying to affect companies that legitimately do reverse engineering," she said.

Mr Mark Deering, spokesman for an international group of computer manufacturers monitoring the proposals, said yesterday that the European Commission had earlier amended the proposed directive in ways which made it "broadly acceptable". The group, the European Committee for Interoperable Systems, represents such manufacturers as Amstrad, Groupe Bull of France, Olivetti of Italy, Fujitsu of Japan and NCR and Unisys of the US.

The UK government's new amendment, however, threatened to undo this work. "The IBM-compatible PC industry would be outlawed at the stroke of a pen," he said.

Lack of funds may halt S & L rescues

By Peter Riddell, US Editor, in Washington

THE US Government's rescue of the savings and loan industry may come to a halt within the next few weeks because Congress adjourned yesterday without approving needed funds.

This is certain to increase the cost of the rescue, the largest ever in the US, by billions of dollars as the Resolution Trust Corporation (RTC), which handles the operation, is forced to delay taking over loss-making savings and loans or thrifts. Consequently, their losses will rise until action can be taken, probably early in the new year after Congress reconvenes.

The Bush administration had sought up to $57bn for the 1991 fiscal year to cover both core losses on the closure or disposal of failed thrifts and to finance working capital needs between the acquisition of assets and their disposal. The funds approved by Congress last year have virtually run out.

A more limited compromise proposal to provide $10bn to tide the RTC over until February when further money could be approved was passed by the Senate early yesterday but was blocked on procedural grounds in the House of Representatives just before Congress adjourned for the year.

The savings and loan rescue is highly unpopular with voters and, following all the criticism over the budget crisis, many Congressmen did not want to be saddled with further blame for approving money for the bailout.

The lack of action, however, by Congress merely defers and adds to the cost of the problem since the government has an open-ended obligation in the rescue because it guarantees savings and loan deposits up to $100,000.

Arguing for even the $10bn package, Senator Donald Riegle, Democratic chairman of the Senate Banking Committee, said the money would have kept RTC operations on a "leash" until February when Congress could have acted again.

Similarly, Senator Jake Garn, the senior Republican on the committee, warned: "We cannot afford to end the session without providing the RTC with sufficient money to carry on the closure of the troubled institutions. If we do not, they stay open and we could increase the cost of the bailout by billions of dollars."

Antipathy in Kentucky, Page 2

Hungarians retreat on fuel price clash

By Nicholas Denton in Budapest

THE HUNGARIAN government and the country's taxi and truck drivers yesterday drew back from a clash which had paralysed the nation since Thursday night and threatened its stability.

Early yesterday the drivers opened barricades of vehicles that had choked crucial intersections and bridges and sealed Hungary's borders. They acted after the government indicated willingness to compromise on the average 65 per cent increase in retail fuel prices.

Mr Peter Bod, industry minister, later offered a retreat on the price rise, holding out the chance of a temporary 45 per cent increase instead. He said that the eventual aim was the liberalisation of energy prices and that parliament should soon decide on petrol taxation levels comparable with western Europe.

It was still doubtful last night whether the protesters would be satisfied with that retreat. Drivers remained poised to reimpose the blockade if their demands were not satisfied.

Last week's move to increase prices to west European levels came after a 30 per cent cutback in oil supplies from the Soviet Union. That reduction forced the government to turn to world markets at a time when the price of oil is nearly double its pre-Gulf crisis level.

The increase is also meant to cushion the blow of the full change-over to world market prices in trade with Moscow from the new year.

Although the two sides have drawn closer, the outcome is still uncertain. Drivers may again reject a solution agreed by their representatives. Moreover, the final resolution may simply be postponed until petrol taxation is discussed by parliament.

But the more time passes, the more the government's position strengthens. Its calm is returning as public irritation with the strike's disruption hardens and offers to help with energy supplies pour in from the west.

"There was no possibility of avoiding such a crisis," said Mr Istvan Forrai, head of the prime minister's secretariat. "It is something the country has to go through."

He said that it was crucial for the new democracy that the drivers' action be rejected by the population, rather than ended by the police.

As bread and milk have run short, reports of anarchy and violence have proliferated and embarrassment at the image of Hungary presented to the world has grown, the public mood has turned against the strikers.

An angry pro-government crowd of several thousand demonstrated yesterday outside the building where ministers and workers' representatives were negotiating.

The protests, however, and the government's reaction have exposed the relative fragility of the new democracy.

The episode has shown public hysteria to be close to the surface. People formed long queues outside foodshops as soon as the blockade began to tighten and some shopkeepers in Budapest began carrying guns.

NZ National party sweeps to victory

By Kevin Brown in Wellington

MR. JIM BOLGER, New Zealand's Conservative prime minister-elect, yesterday promised a return to "common sense policies" after a sweeping general election victory ended six years of economic and social reform by the outgoing Labour Party.

Preliminary results gave Mr Bolger's National Party 68 seats in New Zealand's 97 member Parliament, a majority of 39. Labour won 28 seats, and the left-wing NewLabour Party retained its single seat.

An average swing of just under 10 per cent gave the National party the biggest victory in New Zealand's history, eclipsing even the election of the country's first Labour Government, which swept to power with a majority of 30 in 1935.

Labour could lose further seats in Auckland, Wellington and Christchurch, when postal and special votes are counted next week.

Mr Mike Moore, the outgoing prime minister who took over the Labour leadership after a cabinet coup two months ago, retained his Christchurch seat. However, seven of his 17 cabinet colleagues were defeated.

The National victory closes a tumultuous chapter in New Zealand's history – in which Labour floated the currency, slashed protective tariffs, deregulated the financial system and privatised government-owned industries, including the national airline and telecommunications carrier.

Labour also pioneered equal pay and environmental legislation, and effectively withdrew from the Anzus defence treaty with the US by banning visits by nuclear armed or powered warships.

Mr Bolger said the National party would generate a new consensus. The party is committed to retaining Labour's economic reforms, but faces opposition to its plans to extend deregulation into the labour market by abolishing New Zealand's system of compulsory trade union membership.

The National party is also likely to soften Labour's plans to cut inflation from around 5 per cent to between 0 and 2 per cent by 1992. Mr Bolger has attacked the outgoing government for keeping interest rates high, and has spoken of an inflation target of around 2 per cent by 1993.

The new government will move quickly to repair relations with the US, although the National Party has promised not to drop Labour's anti-nuclear legislation.

Mr Bolger said Labour had been thrown out of office for breaking promises not to privatise state assets and failing to achieve economic growth. The economy recorded zero growth last year, and Gross Domestic Product is forecast to rise by 0.4 per cent this year.

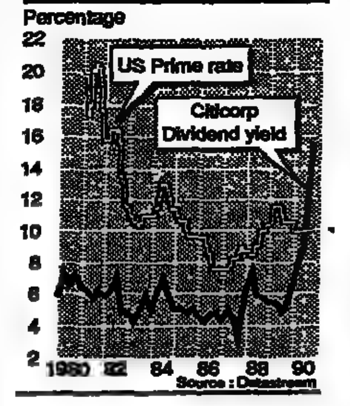
Mr Bolger declined to say how he would handle a dispute between right-wing National MPs, who want to extend Labour's free-market reforms, and left-wingers calling for a looser monetary policy and reduced unemployment.

Mrs Ruth Richardson, the Party's right-wing finance spokesperson, is expected to be appointed to the key portfolio of Finance Minister.

THE LEX COLUMN

US banking in the balance

Citicorp's staff and shareholders are right to worry about the fact that the shares of the biggest bank in America are yielding close to 16 per cent. Perhaps the rest of the world should worry as well. A couple of Citicorp's smaller New York rivals, Chase Manhattan and Chemical, have already cut their dividends. Manufacturers Hanover has hinted that it might do the same. The one fifth drop in the Citicorp share price over the last fortnight suggests it may not be far behind.



Given the talent of US banks for repeated mistakes on a grand scale, this bloodletting is no surprise. The worry is the systemic risks it could pose. In balance sheet terms, Citicorp is on a par with Deutsche Bank or Barclays; it is also a dominant player in the world's foreign exchange markets and payments systems. Well over half its $147bn deposits come from overseas and do not have the automatic protection of Federal deposit insurance. While its powerful consumer banking business earns over $1bn a year, the sharp rise in the cost of its auction rate preferred stock over the past week has shown the fragility of investor confidence.

If a bank has to pay its depositors more than it charges its lenders for very long, it has no future. Citicorp's problems in the preferred share market, which only supplies a very small part of its funding, are almost certainly a temporary aberration. But Citicorp's capital ratios are weaker than most; and although the $10bn of provisions made over the last four years is bigger than the current $9bn common equity base, it is still under-reserved by European standards.

With a stock market capitalisation of just $3.6bn, its ability to raise an extra $1.5bn to $2bn of new capital is limited. Hence the concern about the $600m per annum common stock dividend. One possible solution would be a merger with a neighbouring New York bank. If $1bn a year of costs could be knocked out of the combined group, for instance, it would not take long to rebuild the capital ratios.

That aside, the easiest way for Citicorp to repair its capital ratios is to shed assets. This is where its problems, and those of other big US banks, begin to flow over into the rest of the financial markets. The US savings and loan industry has already shown what happens when financial institutions are forced to dump over-priced real estate. The resulting reduction in the value of other real estate in turn precipitates the need for more loan loss provisions and more asset sales.

The great worry for the financial markets, and the central banks, is that the problems of the banks will cause a sudden and unpredictable contraction of credit. There are already signs that liquidity is drying up in certain markets. Lending margins may be on the mend; but even the best capitalised banks are reluctant to lend more if they cannot find other banks to syndicate the risk. This is the mechanism by which the problems of the banking community are transmitted to the economy at large.

The commercial bankers do not deserve all the blame. The record of the bank regulators has been far from impressive. In the US, they went to any lengths to help their flock cope with tougher international capital ratios. Similarly, the Bank of England has not had much success in curbing the unsound lending which helped the recent UK property upsurge. The great worry for the financial markets now is that the central banks will either do too little, or too much. The weaknesses of the banking system, dramatised by Citicorp's problems, indicate that the risks of a severe recession are just as serious as a resurgence in inflation.

Publishing assets

If recent talk of the tribulations of media owners has done nothing else, it has served as a reminder of the elusive nature of publishing assets. News Corporation has a stated net asset value of A$11.3bn, of which A$13.3bn consists of intangible assets such as publishing rights and titles. Maxwell Communication's net asset value is £1.3bn, of which intangibles account for some £2.5bn. Reed International's net asset value is £1.4bn, of which intangibles are £1.5bn; and so on.

It is self-evident that newspaper and book titles have a commercial value. The snag lies in establishing roughly what that value is. The sophisticated approach is to decide subjectively how much of the earnings from a publishing asset belong to its intangible aspects and then to apply a yet more subjective earnings multiple. The simpler method consists of stating that the fair value of the asset is whatever it cost. Given the scramble for publishing assets in the 1980s, that may be a sanguine assumption.

It might be argued that tangible asset values are not terribly useful either. But the values of plant and machinery at least have the conservative merit of being depreciated each year. None of the above-mentioned media companies depreciates its titles at all. More important, manufacturing assets are generally interchangeable while publishing titles are unique. The price of a machine tool is governed by that of others like it. The value of Heinemann or The Sun is vastly more dependent on market conditions at the time.

In a sense, the argument is only part of the wider issue of brand valuation. What News Corp does for its titles, Cadbury does for its chocolate bars and GrandMet for its drinks. But those industries do not have quite the same recent history of bidding up assets. Nor are food and drink companies typically groaning under a weight of debt.

The effect of using intangibles to increase asset values is of course to reduce the stated level of gearing. The market evidently prefers to look to the level of interest cover. News Corp had interest cover last year of 1.5 times; its present market capitalisation is one eighth of claimed asset value. Maxwell had interest cover of 2.4 times; its market capitalisation is three quarters of asset value. Reed last year had virtually no interest payable at all; its premium to asset value is nearly 50 per cent.

The question of whether publishing assets are worth what balance sheets say they are is difficult to settle, since few media assets have come on to the market lately. This may be because of a gap between the expectations of buyers and sellers. But if companies are driven to sell by their bankers, the principle of intangible valuation could be put to the test.

WORLDWIDE WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	R	17	63	Berlin	S	12	55	Caracas	C	27	82	Faro	C	18	66	Islamabad	F	26	79
Algiers	F	22	72	Biarritz	R	13	57	Casablanca	S	21	70	Florence	C	12	54	Istanbul	S	16	61
Amsterdam	R	11	52	Bombay	-	-	-	Chicago	-	-	-	Frankfurt	R	11	52	Jakarta	C	32	91
Athens	F	21	70	Bordeaux	R	15	59	Cologne	C	11	52	Geneva	C	12	55	Jersey	R	12	54
Bahrain	S	31	88	Boulogne	R	12	55	Copenhagen	S	11	52	Gibraltar	C	17	64	Johannesburg	S	25	77
Bangkok	F	32	90	Brussels	R	12	54	Corfu	F	17	64	Glasgow	R	7	45	Lima	C	20	68
Barcelona	F	17	64	Budapest	C	7	45	Dallas	[illegible]	11	52	Helsinki	S	5	41	Lisbon	R	17	64
Beirut	-	-	-	Buenos Aires	[illegible]	25	78	Dublin	F	8	48	Hong Kong	S	26	79	London	F	12	54
Belfast	F	7	45	Cairo	S	27	81	Dubrovnik	S	18	66	Innsbruck	S	8	48	Los Angeles	S	16	61
Belgrade	F	12	55	Cape Town	S	20	68	Edinburgh	R	8	48	Inverness	R	7	45	Luxembourg	R	7	45

		°C	°F			°C	°F			°C	°F			°C	°F			°C	°F
Madeira	C	22	72	Milan	F	11	52	Nicosia	F	23	75	Salzburg	S	12	54	Tenerife	S	[illegible]	75
Madrid	F	12	54	Montreal	R	6	43	Oporto	C	17	63	San Francisco	S	12	54	Tokyo	S	17	64
Majorca	F	18	66	Moscow	R	3	38	Oslo	C	8	48	Seoul	S	17	64	Toronto	F	[illegible]	[illegible]
Malaga	F	18	66	Munich	S	11	52	Paris	R	12	54	Singapore	F	29	84	Tunis	R	[illegible]	[illegible]
Malta	F	23	75	Nairobi	C	23	75	Peking	S	16	66	Stockholm	C	7	45	Valencia	C	17	64
Manchester	R	7	45	Naples	R	20	68	Prague	F	12	54	Strasbourg	C	12	55	Venice	S	[illegible]	[illegible]
Manila	F	33	93	Nassau	F	23	78	Reykjavik	C	7	45	Sydney	S	23	75	Vienna	S	11	52
Melbourne	S	20	68	New Delhi	S	28	84	Rhodes	S	20	68	Taipei	F	27	81	Warsaw	C	7	45
Mexico City	C	25	78	New York	S	8	48	Rio de Janeiro	F	30	86	Tangier	C	17	63	Washington	S	7	45
Miami	C	21	70	Nice	F	18	66	Rome	F	20	68	Tel Aviv	S	22	72	Zurich	F	12	54

Temperatures at midday yesterday C–Cloudy Dr–Drizzle F–Fair Fg–Fog H–Hail R–Rain S–Sunny Sl–Sleet Sn–Snow T–Thunder

FINANCIAL TIMES
COMPANIES & MARKETS
Monday October 29 1990

INSIDE

Ontario clears way for British Gas bid

British Gas' proposed C$1.1bn takeover of Consumers Gas of Toronto has been cleared by an Ontario-regulatory agency, subject to numerous conditions including a commitment to maintain partial public ownership of the Canadian utility. Page 24

Swedish bonds in turmoil

The Swedish bond market was ready for upheaval as it waited for the Social Democratic government of Mr Ingvar Carlsson (left) to announce its economic austerity package last Friday. It has already been a turbulent month with rumours of a krona devaluation and two sharp interest rises. And when the measures were announced in the late afternoon after trading closed, the reaction was generally negative with widespread predictions that market interest rates are likely to rise, writes John Burton. Page 28

French immigration curbs

French politicians have been loath to suggest that the country needs to change its immigration policy. But there are a number of factors which may force the idea on to the national agenda. Page 36.

Numbers run against Chevron

Market arithmetic has moved against Chevron, the fourth biggest US oil company. Its third-quarter net income declined by 3 per cent to $403m, while operational results were 21 per cent lower because the cost of buying crude oil rose more than the average increase in refined product prices. Page 25.

Bond port in Gulf storm

Switzerland has always been something of a safe haven in times of turmoil. In the shadow of the Gulf crisis the dictum appears to hold true, writes Simon London. Page 27

Market Statistics

Companies in this section

Pan Am rejects American Airlines' counter offer

By Paul Abrahams in London and Nikki Tait in New York

MR TOM Plaskett, chairman of Pan Am, last night rejected an American Airlines offer to purchase its US-London routes for $500m. The figure is $100m more than that offered by United Airlines.

Mr Plaskett said he intended to abide by the agreement with United which he believed was fair to both parties. He added that the transaction with United was legally enforceable.

He confirmed that Pan Am had asked its creditors, including Airbus Industrie, United Technologies and the US Internal Revenue Service, to put back payment of some of its debts so the airline could maximise its flexibility during the winter. During this period, Pan Am was due to pay Airbus and United about $32m and the Pension Benefit Guaranty Corporation $53m.

Mr Plaskett, returning last night to the US from Berlin with a $150m cheque from Lufthansa for Pan Am's internal German services, said both Mr Crandall, the chairman of American Airlines, and the media had misunderstood the importance of the marketing aspects of the agreement with United.

"American's $500m offer, which would represent an asset sale to fund operations, contains no strategic value," explained Mr Plaskett. He said the United alliance, which will involve schedule co-ordination, facilities sharing, cost economies and the integration of the two airline's frequent flier programmes, forms an essential part of Pan Am's strategy.

The rest of Pan Am's strategy, explained Mr Plaskett, involved refocusing European operations in Frankfurt and exploiting central and eastern Europe; developing non-stop routes from New York J.F. Kennedy airport to European continental capitals with smaller aircraft; and reinforcing the airline's highly profitable central and south American operations at Miami.

Mr Plaskett said there would be no more asset sales after the disposal of the Pan Am shuttle between New York, Boston and Washington. He added that he would not contemplate selling assets to fund operating losses.

However, in spite of Mr Plaskett's public bravado, there is widespread scepticism among US analysts over whether a viable, if substantially smaller, airline emerges from the United deal. "The prospects for recovery are not very good," said Mr Paul Turk at Avmark, a leading consultancy group.

Flying high over the debt mountains

Maggie Urry looks at Brent Walker's asset backing

When Mr George Walker wanted to reassure his bankers earlier this month about the quality of his UK company's assets he hit on a simple solution. He put them on a plane and flew them around the Brent Walker empire of hotels, marinas and leisure spots across the UK and Europe.

The bankers had cause to be interested. They have all contributed to the group's net borrowings of £1.15bn ($2.25bn). But the recent slide in Brent Walker's share price, which by Friday's close of 45p valued the group at only £22.6m, suggests the stock market is less than confident that the money has been well spent.

The financial position should become a good deal clearer today when a 120-page document is published concerning a £103.3m convertible bond issue announced last month. This document, the particulars required for a stock exchange listing of the bonds, will give details of rearrangements of the group's short-term debt.

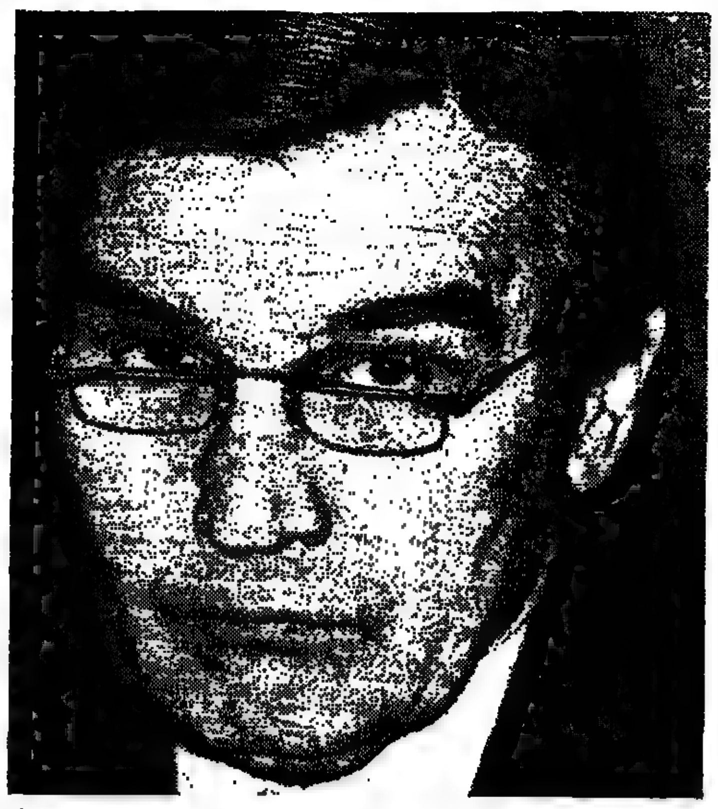
As well as locking in £240m of short-term credit for a year, banks have agreed to lend another £40m.

The bankers' two-day tour took in exotic locations such as Puerto Sherry, the hotel, residential and marina development in southern Spain: the golf and casino leisure complex at Le Touquet in northern France: the Brighton marina and the Trocadero, the shopping and entertainment centre in London's Piccadilly Circus, in which Brent Walker has a half share.

Apparently bankers were impressed by what they saw. And it is this solidity in the group's trading operations which sets Brent Walker apart from Polly Peck International, the fruit, electronics and leisure group, which crashed spectacularly last week.

As well as the headline-catching developments, other assets include a brewery and a chain of pubs, the Elstree film studios and a 1,700-strong chain of betting shops. The latter was largely built from last December's £685m acquisition of the William Hill and Mecca bookmaking businesses from Grand Metropolitan, the drinks, food, pubs and restaurants group. That purchase is now the subject of a £160m dispute between Brent Walker and GrandMet.

Mr Walker has always believed that his leisure operations should be firmly founded on property assets. Analysts believe that the group's assets are worth more than £10 a share. But when it comes to the crunch, assets are worth what someone else is prepared to pay for them.



George Walker: out to sell peripheral businesses and cut debt

Earlier this year Mr Walker made it clear that the group needed to sell peripheral businesses in order to bring down its debt burden. But Mr Walker's legendary abilities as a deal-maker can do little in the property market's current state.

More than a year ago, Brent Walker said that a £90m management buy-out of Goldcrest, its film subsidiary, would be announced "shortly". It has taken until now to finalise the sale but cash proceeds are likely to be £25m.

In August Mr Walker wanted to sell the Trocadero. But Brent Walker's partner, Power Corporation, an Irish development group, vetoed the sale because business would be worth far more when completed next year.

It was difficulties like these in selling assets at what Mr Walker considered a fair value that led to the bond issue as an alternative way of raising cash. And it was a mark of the group's urgent need for funds that the £103.3m bond issue will be convertible into 78.8m shares, which would increase the group's share capital by nearly 150 per cent.

The bond issue and debt rearrangement will give Brent Walker a breathing space. A recovery in the property market is needed to achieve a more lasting solution of its debt problems.

The opulence that borrowings can buy

By Peter Bruce in Jerez de la Frontera

UNTIL very recently, the most Spaniards knew or cared about Brent Walker was that it owned the glittering Puerto Sherry marina development just 20kms south of the world's sherry capital, was thinking of floating its Spanish operation on the stock market and was about to build a new marina in Menorca. News that Mr George Walker may be facing problems has had a mixed reception.

"Oh good heavens," exclaimed a well known Madrid financier who has just bought a dwelling in the newly completed first phase at Puerto Sherry. "This is my money we're talking about here." An employee at the development merely shrugged. "If Brent Walker goes, somebody else will buy it," he insisted.

If the marina, hotels and homes at Puerto Sherry are any guide to Mr Walker's enthusiasm for spending the money he borrows then he cannot be faulted for opulence or ambition. "The place is a monstrosity," rages a shopkeeper in the nearby town of Puerto Santa Maria. In fact, it is just incredibly well, if not a little garishly, appointed – from an intimate theatre to a three football field size dry storage area for yachts.

Puerto Sherry, quite empty and still this weekend, was taken over in 1983, with work on the 800-berth marina just beginning. The buyer was Aresbank, in which the Libyan and Kuwaiti government each have 30 per cent. Aresbank struggled with managing the project and by 1987 had had enough. It asked the Arab Banking Corporation, one of Brent Walker's main creditors, to help find a buyer and the rest is history, including the garish Aquasherry water theme park just up the road which was thrown into the deal for good measure.

Brent Walker personnel will not say how much the company paid for the project, which was still in its early stages by 1988 when taken over. Some Pta1.6bn ($16.8m) in new capital was raised by the company then and it has since spent Pta10bn and plans to invest a further Pta5bn.

The project still has a long way to go. The marina is complete and one of the two hotels was hurriedly opened in August in time for the arrival of the Brent Walker Cup winners racing in from the Brighton Marina. Off to the right are rising some 440 homes and shops – probably the only ones in Andalucia not painted white. Still, most of the buyers in phase one have been Spanish and phase two is 30 per cent sold.

One hotel and two more home phases to go, though, and the Spanish home-buying boom has unfortunately peaked. The project also has an image problem locally and access is by a narrow crumbling road that the locals, almost deliberately it seems, litter with their garbage.

Puerto Sherry is one of the few modern marinas on the Andalucian Atlantic coast and would probably attract buyers if Mr Walker had to let it go. Its management says cash flow next year should be positive for the first time. The market in Spain, however, is now with the buyer.

7 directors quit and Enimont plans $7.5bn cash call

By Haig Simonian in Milan

A SHOWDOWN at Enimont, the troubled Italian chemicals joint venture, has drawn one step closer with the resignation on Saturday of seven of its 12 board members.

Separately, Mr Sergio Cragnotti, the company's managing director, announced plans for a rights issue of up to L8,500bn ($7.5bn), to be approved by a special shareholders' meeting next January.

The resignations follow last week's rejection by Mr Raul Gardini, the head of the Ferruzzi-Montedison group, of the terms set out by Eni, Montedison's public-sector partner in Enimont, for the sale of its 40 per cent stake in the company.

Accusing Eni of not observing the government's agreed procedure for a negotiated divorce between the two fractious partners, Mr Gardini hinted strongly that Montedison would again try to use the majority stake in Enimont's shares it holds with its allies to push through its policies on the company's board. The resignation of Enimont's five Montedison-appointed board members, along with that of two directors representing Mr Gardini's allies, now confirms that strategy.

The resignations trigger a procedure whereby all 12 board members, including Eni's five representatives, are obliged to step down. A new board will be appointed at a shareholders' meeting due on November 14 and 15, and it is likely that Montedison will try to use the meeting to elect a new board on which it will have the decisive two-thirds majority to carry through strategic decisions.

Despite his apparent advantages, opposition to Mr Gardini mounted over the weekend. On Friday, key government ministers came out in favour of Eni's stand that its sale contract was in line with the agreed divorce procedure. Such support has strengthened Eni's position, and increased the likelihood of an acrimonious legal battle should Mr Gardini try to push through his plans next week.

However, he already appears to have adjusted his position. Borrowing from Eni's counter-proposal to the L10,000bn capital increase put forward by Mr Gardini for Enimont earlier this year, the company is calling for its recapitalisation to be in cash.

That would rule out, for the time being at least, the widely expected transfer of Montedison's Himont and Ausimont subsidiaries as its contribution to Enimont's capital increase.

Economics Notebook

French wage problems wriggle into the open

Since the onset of the Gulf crisis, French economists have taken the lid off a number of cans of worms, whose wriggling had hitherto remained decently hidden.

It is now commonplace to observe that activity had begun to slow down, and slow significantly, months before any impact from the Iraqi invasion of Kuwait.

But unit labour costs, too, can now be seen to have begun to climb alarmingly as early as the second quarter of 1989 – a trend which had been partially concealed by a fortunate drop in the cost of imported goods and raw materials.

From 1983 to 1989, French unit wage costs had diminished in real terms by an average of 1.7 per cent a year, a substantially better performance than the average of 0.9 per cent a year achieved by West Germany.

While hourly salaries have maintained a slow but sustained acceleration over the last three years, however, productivity gains have tailed off. In the first six months of this year they ground to a halt, leaving unit wage costs to climb by 2.7 per cent in the first six months of 1990, and by 4.7 per cent over the past year.

The acceleration has been most marked in manufacturing industry, where unit wage costs have risen by 5.1 per cent over the past year, with intermediate goods manufacturers particularly affected.

Against this background, the reaction of French wage negotiators to the surge in inflation provoked by the Gulf crisis could prove decisive. Faced by two previous oil shocks, France reacted by allowing substantial wage increases to trigger an inflationary spiral, as the "anti-crisis" study group set up under planning minister Lionel Stoléru reported earlier this month. Will the response be better this time?

Wage negotiation structures appear to have broken with some of the habits of the 1970s, but economists cannot agree on whether wages have been disindexed from inflation.

Earlier this year, Pierre Ralle and Joël Toujas-Bernate, economists at Insee, argued that the disindexation of pay was a reality since 1983; previously, past price increases were passed on within one quarter into pay.

But Sanvi Avouyi-Dovi, Eric Bleuze and François Lecointe, of the Caisse des Dépôts, find the evidence of a statistical turning point inconclusive. Instead, they argue that France shows a close indexation of wages on past inflation, but unlike countries like the US and especially West Germany, pays no attention to productivity gains in wage negotiations.

Pierre Poret, economist at the Organisation of Economic Cooperation and Development, argues on the other hand that French wages remain closely indexed on prices, but on expectations of future inflation, rather than on past inflation. These expectations, he suggests, have been moderated to the tune of about 1 percentage point a year because of the greater credibility of French monetary policy, thanks to the firm anchorage of the franc in the EMS exchange rate mechanism.

Pierre Bérégovoy, the finance minister, can be relied on not to abandon this monetary anchorage; indeed, a number of French economists have argued that one way to reduce the gap in interest rates between France and Germany – far wider than that between inflation rates – would be to put an official stamp on what is already virtual reality by declaring that the franc exchange rate against the D-mark is henceforth fixed.

But will monetary discipline be enough, against a chorus from the socialist majority backbenches in favour of more redistribution to employees?

Trading setback

It was unkind of fate to return the best visible trade figures Britain has seen for years, and the worst seen in France, just one week after Pierre Bérégovoy invited the French national assembly to meditate, without any spirit of polemic, on the economic failure of the UK.

Some deterioration in French trade performance was widely expected, for the energy deficit widened sharply and predictably to FFr9.9bn ($1.96bn), compared with an average of FFr6.3bn a month in the balmy first half of the year, before Iraqi tanks sent oil prices climbing. All the same, the overall September trade deficit of FFr10.1bn, after seasonal adjustments, also reflected a wider deficit in manufactured goods and a narrower surplus in food and agricultural products.

It would probably be erroneous to lay too much of the blame at the door of the strong franc, although it has appreciated by nearly 10 per cent against the US dollar so far this year. France's share of export markets is most sensitive to price competitiveness in the EC, according to an Insee analysis, and the EC, where the franc exchange rate is broadly stable, now represents 57 per cent of French exports.

Pierre Bérégovoy: fate unkind to the French finance minister,

There are, however, some grounds for caution over the likely trend for the trade deficit in the months to come, even if September's figure does prove to be somewhat erratic.

The first point is the manufactured goods deficit, which has been causing frissons of alarmism for years now but which continues to deteriorate steadily, totalling FFr7.5bn last month.

The second, however, has hitherto been regarded as one of the strong points in France's trade performance: food and agricultural products.

Insee had already warned in July that French grain exports would be difficult to sustain in the second half. In addition, it pointed out that much of the improvement in agricultural trade over the last two years has been an optical illusion due to the diversion of sugar exports away from French ports to Rotterdam.

Contrary to the expectations of some stockbrokers' economists, the agricultural surplus is likely to fall from the FFr4.9bn a month average of the first half, if not as low as September's FFr3bn, then at least to around FFr3.5bn.

George Graham

Strong first half at NEC and Fujitsu

By Ian Rodger in Tokyo

NEC and Fujitsu, Japan's leading computer and telecommunications equipment makers, both scored double digit pre-tax profit increases in the six months to September 30, and have raised their dividends.

NEC's interim dividend rises from Y4.5 per share to Y5 per share while Fujitsu's goes from Y4 to Y4.5. Profits of NEC jumped 18.5 per cent to Y55.9bn, thanks to booming sales of telecommunications and computer equipment. Sales rose 9.8 per cent to Y1,378.1bn ($10.9bn).

Net income jumped 30 per cent to Y38.6bn or Y25.13 per share. The company expects that its customers' capital spending will remain strong in the second half, and is forecasting a record pre-tax profit of Y145bn for the full year, up 9 per cent.

Fujitsu's pre-tax profit was up 10.8 per cent to Y55.6bn on sales ahead by a similar margin to Y1,070.7bn. The company said a slump in semiconductor sales was more than offset by buoyant markets for its computers and telecommunications equipment.

Sales of electronic devices fell 9.6 per cent to Y133.6bn, but telecoms equipment sales surged 19.2 per cent to Y191.9bn. Sales of computers were up 13.3 per cent to Y745bn.

Net income advanced 3.2 per cent to Y29.4bn.

Like NEC, Fujitsu is bullish about the second half, despite higher interest rates and economic uncertainties.

Although interest payments will be significantly higher following its purchase of a controlling stake in the UK computer maker ICL in July, the company forecast a pre-tax profit of Y135bn, up 6.3 per cent, for the full year.

COMPANIES AND FINANCE

Sun Life may use courts to improve Mecca terms

By Simon London

SUN LIFE, the insurance company, has confirmed that it may resort to legal action in an effort to force Rank Organisation to improve the terms of its offer to holders of convertible preference shares in Mecca Leisure.

Rank owns over 90 per cent of Mecca preference shares and can now compulsorily buy the outstanding stock, under Companies Act legislation.

However, the legislation also allows non-assenting shareholders to apply to the courts to enforce better terms.

"Legal action is certainly a possibility," commented Mr Peter Grant, Sun Life chairman. "Our position reflects long-standing agitation by institutional investors over the treatment of convertible stock in bid situations. We will act to protect our position and the funds of our policyholders."

Talks between the two sides have yet to yield a solution to the impasse. Sun Life holds 9 per cent of Mecca convertible preference shares, nearly all the total outstanding.

Rank has offered three of its 6.25 per cent preference shares for every four of Mecca 7.25 per cent preference shares.

At the time of the offer, Rank said that although that represented a decreased annual dividend, "shareholders should consider the fact that Rank's dividends have increased consistently over the last five years and there may be some doubt as to the maintenance of Mecca's dividends."

Indeed, when Mecca announced an interim pre-tax loss of £42.2m on September 25, the preference dividend was passed.

However, Sun Life says that the offer now on the table undervalues its holding of convertible stock and is hoping to force concessions.

In a similar episode last year, the insurer resisted the £630m management buy-out of kitchen retailer Magnet, by building a 12 per cent holding of convertible preference shares. On that occasion Sun Life forced the ill-fated buy-out team to offer preference share holders a full cash alternative to the original cash-and-shares offer.

Kay acquisition will not dilute Ratners earnings

By Maggie Urry

MR GERALD Ratner, chairman and managing director of Ratners Group, the jewellery retailer, said yesterday that early signs from Kay Jewelers, acquired in the US, supported his view that the purchase would not dilute Ratners earnings in the next financial year.

Completion of the £220m acquisition of Kays, which was launched in July, will be formally announced today. Mr Ratner said that as the deal had been agreed, Sterling, Ratners US business, had started work on Kay two months ago.

The 165p second instalment of a two-part rights issue of convertible loan stock made to finance the acquisition is now due on November 7. Once that has been paid the stock will convert into ordinary shares on November 14.

Kay's head office will be closed, and Sterling's head office in Akron, Ohio, has been doubled in size to take on the new stores. Significant cost savings will be made, Mr Ratner said, from joint advertising and buying and through integrating management structures.

Although Kay should enhance earnings in Ratners current financial year ending January, because it will be included for the most profitable period of the year covering Christmas, analysts had feared that Ratners earnings would be diluted in the next financial year. Kay was incurring losses when Ratners bought it and some considered the price paid was too high.

Mr Ratner said that in order to avoid dilution the average annual turnover of each Kay store would have to rise from the $500,000 being achieved when Ratners moved into Kay, to $1m a year by the end of the next year.

He said that trading in the UK had been variable since the summer although the launch of a discount voucher scheme last week had boosted sales. Under this scheme shoppers who spend over £150 are given a £50 voucher which can be used next February. The scheme operated for 10 days before Christmas last year and 90 per cent of the vouchers were redeemed.

Independent chief silent on Italian move

By Richard Lapper in London and Haig Simonian in Milan

The editor of The Independent, Mr Andreas Whittham Smith, yesterday refused to comment on reports that Mondadori, the leading Italian publishing group, may be negotiating to buy a 10 per cent stake in the newspaper.

The Independent already has an editorial co-operation agreement with La Repubblica, the prestigious daily newspaper which is part of the Mondadori group. Mondadori is now under the control of Mr Carlo De Benedetti, following a boardroom struggle earlier this year. According to La Stampa, the Turin-based Italian paper, talks on a deal have reached an advanced stage but no terms have been revealed.

A spokesman for Mr De Benedetti said he had no knowledge of the transaction yesterday, while Mr Carrado Passera, one of Mr De Benedetti's key lieutenants who was recently appointed managing director of Mondadori, could not be reached for comment.

British Gas clears regulatory hurdle in bid for Consumers

By Bernard Simon in Toronto

AN ONTARIO regulatory agency has cleared the proposed C$1.1bn (£480m) takeover by British Gas of Consumers Gas of Toronto, subject to numerous conditions which include a commitment to maintain partial public ownership of the Canadian utility.

The Ontario Energy Board's recommendations must still be approved by the province's new left-wing government, which is likely to come under pressure from Canadian nationalists to impose still stiffer conditions on British Gas.

The OEB said that British Gas's purchase would, on balance, be of "some benefit to the domestic economy." It added that regulatory supervision of the gas industry would protect Consumers customers after the acquisition.

But the board said that taking Consumers private "would be contrary to the public interest." It recommended that British Gas spin off at least 15 per cent of Consumers to the public no later than September 30 1992. In hearings before the OEB last summer, British Gas offered to create a public float within 10 years, provided it did not suffer a loss in the process. The British company at one point threatened to withdraw from the deal if it was forced into an immediate share issue.

British Gas offered C$34 a share last March for all Consumers' outstanding shares, which include the 83 per cent control block held by GW Utilities, a company controlled by Toronto's Reichmann family. In anticipation of a positive OEB report, Consumers share price bounced up by C$1.5 on the Toronto stock exchange last Friday to C$31.75.

The OEB also proposed that a majority of Consumers directors should be independent of British Gas, Consumers and their affiliates, with at least one-third being residents of Consumers franchise area.

Furthermore, Consumers' research and technology spending should not be cut below present levels, and British Gas should encourage higher outlays.

The offer for Consumers, Canada's biggest gas utility, is an important part of British Gas's strategy to broaden its international base. The Canadian company has just over one million customers, mostly in heavily industrialised southern Ontario. British Gas has indicated that it may use Consumers as a springboard into the US market.

● British Gas has complained that political pressure from west German companies may prevent it from acquiring an equity stake in Verbundnetz Gas, the east German gas monopoly which is being privatised.

Mr Peter Lehmann, worldwide controller for new business at British Gas, said that it was seeking up to a 30 per cent stake in the company out of the 55 per cent which remained with the privatisation agency. Two west German companies acquired 45 per cent of the company in August.

Mr Lehmann also said that British Gas was seeking interests in three east German local gas distribution companies, including possibly majority holdings. British Gas was prepared to invest between DM700m and DM1bn over the next five years if it was able to acquire stakes.

Investors could take legal action against Royal Life

By Richard Lapper

INVESTORS WHO claim to have lost several million pounds due to the activities of Mr Robert Kissane, a former sales representative of Royal Life, could take legal action against the company.

Royal Life, which estimates total losses to be around £8m, set up a compensation fund on October 8.

The investors, many of whom remortgaged their houses and invested the proceeds through Mr Kissane, say the amounts being offered by Royal are inadequate. Ms Jan Prouting, the secretary of Action Group South, which represents 400 investors, said yesterday that members were "very dissatisfied" with the compensation package on offer. Only between £6,000 and £7,000 had been paid out so far, mainly to people in financial hardship.

Mr Bob Cattrall, Action Group's vice-chairman, said the group was seeking compensation for stress suffered by individual members of the group, and for legal costs as well as the monies lost through Mr Kissane's activities. Nigel C Hodkinson, Hampshire-based solicitors, are preparing 10 test cases to present to Royal. If Royal is unprepared to meet the group's demands, legal action could follow.

Mr Cattrall says the total compensation sought could be in excess of £20m. As many as 800 investors could have lost money, says Mr Cattrall.

Mr Kissane himself, was arrested in early October and faces theft charges. He was released on bail earlier this month. The case is expected to go to trial in January.

INTERNATIONAL CROSS BORDER TAKEOVERS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Grand Metropolitan (UK)	*Anglo Española de Distribución (Spain)*	*Drinks distribution*	*£100m est*	*Completes Grandmet EC network*
Sopaf (Italy)	Continental (Germany)	Tyres	N/A	5% bought as part of Pirelli bid
C. Itoh (Japan)	Klöckner-Werke (Germany)	Steel	£34m	5.1% bought; Japanese enter EC steel market
C. Itoh/Klöckner-Werke/Rautaruukki (Finland)	German joint venture	Steel	£34m	KW controlling with 50.1%
Consortium (S. Africa)	Neusiedler (Austria)	Paper	N/A	Plans to buy 49%
Aerospatiale and Alcatel Espace (France)/Selenia Spazio (Italy)	*Ford space systems (US)*	*Telecoms and weather satellites*	*£96m*	*Loral sells 49% to form new business*
ICL (UK)	Databolin Information Systems (Sweden)	Software	£10m	Fujitsu unit expands
BPA (Portugal)/ Mutuelles du Mans Assurances (France)	BPA Seguros de Vida (Portugal jv)	Life assurance	£6m	Banco Portugues do Atlantic to own 72.5%
ConAgra (US)	Divisions of Elders IXL	Beer materials, wool, meat	N/A	Elders still restructuring
Sasib (Italy)	General Railway Signals (US)	Rail signals	N/A	Sasib becomes world No 3

Disposals, refocussing and 1992 continue to be the major themes in international mergers and acquisitions, writes Brian Bollen.

Australia's Elders took another important step in its plans to refocus as a pure brewing company by agreeing to sell the whole of its brewing materials and wool divisions and half its meat division to US food company ConAgra. Elders expects to sell another 20 per cent of the meat business domestically and keep 25 per cent as a long-term investment.

Trading house C Itoh became the first Japanese company to enter the European steel industry, launching a co-operation pact with German steel and engineering company Klockner-Werke. Its purchase of 5.1 per cent of KW is its first large holding in a European or US company.

The South African consortium buying 49 per cent of Austrian forest products group Neusiedler says it will be an important step into the growing EC and eastern European markets. This is the second significant European paper-related purchase in recent months by a consortium with South African interests. *The drinks division of the UK's Grand Metropolitan put in place the last major piece of its European distribution network, buying Spanish distributor Anglo Espanola de Distribucion.*

The purchase of US railway signalling concern General Railway Signals pushes Carlo De Benedetti's fast-growing industrial group Sasib into third place in the world's railway signalling supply business. It also enhances Italy's strong position in the sector.

US defence electronics group Loral agreed to sell part of the former Ford Motor aerospace division to French and Italian buyers, to boost its chances of being a major international player in the sector.

The purchase of 5 per cent of German tyre maker Continental by Milan merchant bank Sopaf took the total known to be in hands sympathetic to Pirelli to 15 per cent.

Source: FT Mergers & Acquisitions International

BASE LENDING RATES

	%		%		%
ABN Bank	14	Coutts & Co	14	Northern Bank Ltd	14
Adam & Company	14	Cyprus Popular Bk	14	Nykredit Mortgage Bank	14½
Allied Trust Bank	14	Dunbar Bank PLC	14	Provincial Bank PLC	15
AIB Bank	14	Duncan Lawrie	14	Rotherwick Bank Ltd	15½
● Henry Ansbacher	14	Equatorial Bank plc	14	Royal Bk of Scotland	14
Associates Cap Corp	15½	Exeter Trust Ltd	15	Royal Trust Bank	14
● B & C Merchant Bank	14	Financial & Gen. Bank	15	● Smith & Williamson Secs	14
Bank of Baroda	14	First National Bank Plc	16½	Standard Chartered	14
Banco Bilbao Vizcaya	14	● Robert Fleming & Co	14	TSB	14
Bank Credit & Comm	14	Robert Fraser & Ptrs	15	● United Bk of Kuwait	14
Bank of Cyprus	14	Girobank	14	United Mizrahi Bank	14
Bank of Ireland	14	● Guinness Mahon	14	Unity Trust Bank Plc	14
Bank of India	14	● Hambros Bank	14	Western Trust	14
Bank of Scotland	14	Hampshire Trust Plc	15½	Whiteaway Laidlaw	14½
Banque Belge Ltd	14	Heritable & Gen Inv Bank	14	Yorkshire Bank	14
Barclays Bank	14	● Hill Samuel	14		
Benchmark Bank	15	C. Hoare & Co	14		
Brit Bk of Mid East	14	Hongkong & Shanghai	14		
● Brown Shipley	14	● Leopold Joseph & Sons	14		
CL Bank Nederland	14	Lloyds Bank	14		
● Charterhouse Bank	14	Meghraj Bank Ltd	14		
Citibank NA	14	Midland Bank	14		
City Merchants Bank	14	McDonnell Douglas Bnk	14		
Clydesdale Bank	14	Mount Banking	14		
Comm. Bk of London Plc	14	Nat Bk of Kuwait	14		
Co-operative Bank	*14	NatWestminster	14		

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COMPANIES AND FINANCE

Monsanto reveals 41% fall and plan for restructuring

By Martin Dickson in New York

MONSANTO, one of the largest US chemical companies, suffered a 41 per cent drop in third-quarter net income – which it blamed on drought and rising oil prices – and announced a restructuring of its agricultural products business.

The restructuring will involve the proposed disposal of its animal feed ingredients business, which has sales of about $160m, and a reorganisation of its crop chemicals business on a product line basis, with some 300 job losses.

The company announced late on Friday, after the close of the stockmarket, that net income in the third quarter dropped from $126m, or 94 cents a share, a year ago to $74m, or 59 cents, on sales up 4 per cent at $2.14bn.

Mr Richard Mahoney, the chairman, acknowledged the figures were disappointing and "well below what we expected going into the quarter".

Third-quarter operating income for the agricultural products unit fell from $57m to $38m because of continued drought in Europe and the western US. "Europe is an important market for Roundup herbicide, particularly in the third quarter, and weed growth is well below normal in key areas like the UK and France," Mr Mahoney added.

Operating income in the chemicals division dropped from $117m to $30m, hit both by a slowdown in the US economy and the rise in oil-based raw material prices that followed the Iraq invasion of Kuwait.

The company said more than half of the decline was due to "last in, first out" inventory accounting and the company planned to recover a large part of its cost increases through higher selling prices. Operating income at the Searle pharmaceuticals unit rose from $14m to $28m, with Fisher Controls up from $17m to $24m. But Nutrasweet, the artificial sweetener business, saw a dip from $39m to $37m because of new product start-up costs.

The company said the restructuring, which will not involve its animal and plant sciences divisions, should not affect net income this year and should mean a net gain when completed.

Skanska sees 15% increase

By John Burton in Stockholm

SKANSKA, Sweden's largest construction company, has predicted that profits after financial items will reach SKr2.35bn ($405m) for 1990, a 15 per cent increase, after reporting a similar earnings rise for the eight-month period to SKr1.7bn.

Sales, including rental revenues, are expected to reach SKr35bn for the year, an increase of 17 per cent. Sales during the eight-month period rose by 25 per cent to SKr22bn.

Skanska said earnings from both Swedish and foreign contracting operations had improved sharply. It has an order backlog of SKr32bn, which is 22 per cent higher than at the end of 1989.

Prospects for orders have increased with the opening of eastern Europe, while competition from Asian companies has eased due to strong domestic demand and rising costs. Housing construction in Sweden is growing, although at a slower pace. In the first half starts were 7 per cent higher than a year ago. However, rising interest rates, public sector austerity measures and a fall in industrial investment have hit other segments of the construction market.

Chevron hit by increase in oil costs

By Alan Friedman in New York

CHEVRON, the fourth biggest US oil company, said its third-quarter net income declined by 3 per cent to $403m, or $1.14 a share, while its operational results were 21 per cent lower because the cost of buying crude oil rose by more than the average increase in refined product prices.

Results from US oil majors have been mixed for the third quarter, with some companies reaping a benefit from the spike in oil prices caused by the Iraqi crisis and others, like Chevron, finding that market arithmetic was against them.

Mr Ken Derr, Chevron's chairman, said the company's average crude oil acquisition costs for its US operations rose by 35 cents a gallon for September, compared with July. During that time, Chevron's average refined product prices were only 26 cents a gallon higher.

Revenues for the third quarter jumped to $10.6bn from $8bn a year ago, while net income for the first nine months of 1990 was $1.5bn, up by 34 per cent on nine-month revenues of $28.8bn, up from $23.9bn in the same period for 1989.

Chevron's US exploration and production operations earned $201m in the third quarter, a leap from $58m a year ago. However US refining and marketing reported a third-quarter loss of $53m – equivalent to the company's spending on environmental programmes in the quarter – compared with $130m of earnings in the 1989 period.

The chemicals operations business incurred a 58 per cent drop in profits to $33m, while minerals operations were down to just $7m, compared with $42m a year ago.

Ball fails in European financing

By Nikki Tait in New York

THE $1.03bn deal by Ball Corporation, the Indiana-based packaging and aerospace products group, to buy Continental Can's European packaging interests has fallen through because of financing problems.

The two companies said: "Due in major part to the recent turmoil in world financial markets and in particular in the US banking community, Ball has not yet arranged financing and the certainty of closing the transaction on the agreed-upon terms and timeframe has become compromised." Asked if this meant the deal was dead, Ball said that was "probably a fair conclusion".

Ball's failure to secure bank funding underlines the difficulties faced by US companies attempting to make acquisitions. The takeover business came to a virtual halt during the latter half of 1990.

Under the CCE deal, Ball was aiming to pay $625m in cash and around $400m in paper. The paper portion would have given Peter Kiewit, the private company which owns CCE, a 29 per cent voting stake in Ball. When the deal was announced in late July, Ball said its gearing would rise to around 60 per cent as a result of the transaction.

Olympic Airways to sell stake in its catering arm

By Kerin Hope in Athens

OLYMPIC Airways, the Greek state carrier, will next month sell a 66 per cent stake in its loss-making meals subsidiary, Olympic Catering.

Six international hotel and catering companies are expected to bid. They are: Trust House Forte; Marriott International; Servair, the Air France catering subsidiary; LSG, Lufthansa's catering arm; and a joint offer by Marriott Europe and Accor, the hotel chain.

Olympic will retain 34 per cent. Mr Nontas Solounias, chairman of Olympic Catering, said: "The sale should go through in November, with the buyer taking over operations immediately under a management contract until the official handover on January 1 1991."

The buyer will also have an option on running bars and restaurants at Athens airport.

Olympic Catering's debt is forecast to reach Dr11bn ($73m) by December. Operating losses this year are estimated at Dr3.6bn on turnover of Dr6bn. "Productivity was three times lower than other European airline caterers," Mr Solounias said. However, it has improved since 950 of the company's 2,050 staff were dismissed last month, and training programmes started for the remainder.

The company has assets of Dr2.5bn.

American Barrick hedges a year's output of gold

By Bernard Simon in Toronto

AMERICAN Barrick, the Canadian gold producer has taken advantage of the rise in the bullion price to hedge more than a full year's output from its six mines at an average price of over US$400/oz.

Mr Greg Wilkins, chief financial officer, said yesterday Barrick had more than 3.4m oz hedged through gold loans, forward sales, options and, for the first time, spot deferred contracts.

The spot deferred deals are essentially forward sales, but allow the company on maturity either to deliver physical material or roll the contract forward. Of the total, about 860,000oz has been hedged since the start of the Gulf crisis, at an average price of US$408/oz, well above market levels. The latest contracts would enable Barrick, if necessary, to sell its entire output until the third quarter of 1993 at an average price of about US$425/oz.

The company's six mines produced 438,000oz in the first nine months of 1990, and output for the year as a whole is expected to exceed the earlier target of 565,000 oz.

Barrick told analysts output at its Goldstrike mine in Nevada was estimated at 330,000 oz this year, and was expected to almost triple within two years.

Noranda barely achieves a profit in third quarter

By Bernard Simon in Toronto

NORANDA, the Canadian resources giant, barely eked out a profit in the third quarter after suffering losses in its forestry operations and feeling the pinch from lower metal prices.

Net earnings were C$18m (US$15.6m) or 1 cent a share, down from C$101m or 49 cents a year earlier. Revenues rose slightly to C$2.27bn from C$2.20bn.

The results were buoyed by Noranda's acquisition of a 50 per cent stake last year in nickel producer Falconbridge. The inclusion of Falconbridge, which enjoyed a strong third quarter, pushed earnings of the mineral division up to C$51m, from C$17m.

Falconbridge's contribution, higher copper prices and some base metal operations more than offset a drop in zinc prices and a strike at the big Brunswick zinc mine.

The forestry division suffered a C$5m loss, compared with a profit of C$50m last year. Noranda said the setback "reflects mounting weakness in all markets for forest products". The company's forestry operations, which include a controlling interest in MacMillan Bloedel of Vancouver, have reduced pulp and paper capacity in the face of poor demand.

Earnings from energy and manufacturing were almost unchanged.

Noranda also felt the impact of high interest rates on its C$4bn debt load. Third-quarter borrowing costs and corporate expenses more than quadrupled to C$67m.

The company said it expects a recovery in the fourth quarter, provided base metal prices remain around present levels and the strength in the oil market continues.

Nine-month earnings were slashed to C$133m or 51 cents a share, from C$384m or C$1.94 in 1989. Revenues rose 5.7 per cent to C$7.28bn.

Strike-hit Stelco reverses into a deficit of C$48.96m

By Robert Gibbens in Montreal

STELCO, Canada's second largest steelmaker, with plants shut down for three months, has suffered a C$48.9m (US$42.5m) loss for the third quarter, against profits of C$22.7m or 54 cents a share.

The loss for the nine-month period was $55.9m, or $1.89 a share, against profit of $83.3m, or $2.05 a share. Sales were $1.9bn against $2.15bn.

The strike is believed close to a settlement following a new company offer. But Stelco has already halved its quarterly dividend, cut management salaries, and slashed capital spending.

However, because of the length of the strike, many customers, such as car companies, have switched orders to other Canadian and US suppliers.

■ **Campeau Massachusetts**, a Boston property firm indirectly owned by troubled Campeau Corp of Canada, has filed for US Chapter 11 bankruptcy protection. Its Lafayette Place shopping mall in Boston is subject to a foreclosure move by Manufacturers Hanover, the US bank.

Campeau Massachusetts is a subsidiary of Federated Stores, Campeau Corp's US retailing group in Chapter 11 since last January.

Lafayette Place management said under Chapter 11 the Mall could remain open and continue leasing efforts.

INTERNATIONAL CAPITAL MARKETS

SWEDISH BONDS

Investors in a storm before the calm

SWEDEN'S bond market, which has had a turbulent month with rumours of a krona devaluation and two sharp interest rises, was preparing itself for further upheaval on Friday in anticipation of the Social Democratic government's austerity package.

When the measures were announced after trading closed, the reaction was generally negative, with predictions that market interest rates are likely to rise. Traders were disappointed that government spending cuts of SKr15bn were less than the SKr25bn they were expecting, and that the government failed to link the krona to the EMS or provide a specific timetable for a Swedish application to join the EC.

Mr Jan Carlsson, head of money market and foreign exchange trading for Svenska Handelsbanken, said the country could "expect another interest rate shock before the end of the year" following the Central Bank's decision this month to force short-term market interest rates up by 5 percentage points to 17 per cent.

The high interest rate level is likely to continue until the September 1991 elections unless early elections are called. The recent increases were aimed at preventing a run on the krona based on speculation about a devaluation. Traders believe the government's package has failed to dispel fears about a devaluation, although the government has publicly ruled out such a course of action.

Rates on six-month Swedish treasury bills began climbing in mid-October on speculation about a devaluation. They were bolstered by the Central Bank's intervention in the money market, jumping from 13.51 per cent with an effective yield of 13.96 on October 10 to a rate of 16.80 per cent with a yield of 17.50 on October 18.

But rates then began to fall as the market took into account the government's promises about a tough austerity package and the Central Bank's success in attracting currency inflows after a record outflow for the week ending October 12.

The rate for six-month Treasury bills stood at 15.32 with a yield of 15.90 on Friday, after a decline of 28 basis points over the past week. But traders now expect the rate could rise by up to 80 basis points today as the market expresses its initial disappointment with the proposed economic measures.

Yields for the benchmark five-year government bonds rose sharply and fell throughout October, starting the month at 13.74 and ending on Friday at 13.71 after hitting a peak of 14.10 on October 17. Bond prices started the month at SKr92.46 and finished on Friday at SKr92.70 after falling to Skr91.42.

The yield decline reflects heavy trading in recent days in the five-year government bonds as investors fled housing bonds, which form the biggest segment of the Swedish bond market and are considered less secure than government paper. Traders expect yields on long-term bonds to start rising again, following a gradual increase on government bonds since June when the yield stood at 13 per cent.

But given the volatility of the political and economic situation, and the opportunities this offers for interest arbitrage between Swedish and foreign rates, attention will mainly focus on the six-month treasury bills.

But some analysts believe that those investing in longer-term bonds should bear in mind that more settled economic conditions could appear at the end of 1991, due to an expected fall in the inflation rate, which has been bolstered by sharp rises in indirect taxation as part of Sweden's tax reform programme, and bringing in its wake lower interest rates.

John Burton

UK GILTS

A glimmer of sunshine amid all the gloom

ECONOMIC OPTIMISTS could focus on some bright spots in this gloomy hiatus between entry to the exchange rate mechanism and next month's Autumn Statement.

Last week's best moment came with the joyful release of the September trade figures, which propped up the gilts market by a point for the rest of the week. The Treasury 11¾ per cent benchmark stock maturing in 2003/07 closed at 101⅜ on Friday to yield 11.44 per cent, also taking encouragement of better times ahead from the easing oil price.

A rosy look at the UK's inflation performance by Greenwell Montagu's gilt-edged economics team had little impact but considerable implications for the gilts market. The team did not see much to shout about in the short term, as the October inflation rate could rise to a dismaying 11 per cent. It was in the UK's prospects that Greenwell saw room for hope, with inflation falling to 5 per cent by the end of 1991.

The London Business School's latest forecast, out today, offers similar hope. It estimates the September 10.9 per cent rate was the peak; and producer prices are easing down because weak demand is exerting greater pressure than labour costs.

If both these forecasts prove accurate, this would give a great fillip to gilt prices. Yields would sink towards those on French and German government bonds as the inflation differential between the UK and the European average narrowed to about one percentage point or less.

Holders of UK bonds could sell at a profit as falling domestic inflation leads to lower yields, giving bonds' coupons higher real values.

From here on, the bright spots get dimmer, as much lower inflation is still over a year away. News about the current spending round is bleak, with markets expecting confirmation in the Autumn Statement of a £7bn overspend, absolute falls in output in the second half of the year, and a return to budget balance instead of predicted debt repayment of £6.9bn.

All this brings the prospect of fresh stock depressing gilt prices nearer. So today's final money supply figures for September are likely to hold a mixed message, even for the optimists. The figures for M4 – broad money – growth are expected to show the Bank of England sold £250m worth of stock last month, showing its canny preference for selling into a rising market or buying from a weakening one.

It is also thought to have sold the same amount of stock when Britain joined the ERM, and surging demand for gilts caused market-makers to call on the Bank to supply. So far the Bank is thought to have sold only £500m altogether, expanding the gilts market by just 0.5 per cent.

Given the market's rapid shrinkage since the government started running a budget surplus, this sounds like small beer, as the new stock was rapidly absorbed and the market held up well. But the rapid reversal of the Bank's position – in 1989, the Bank was a still buyer of stock – could be a foretaste of possibly unpleasant news for gilts in the Autumn Statement.

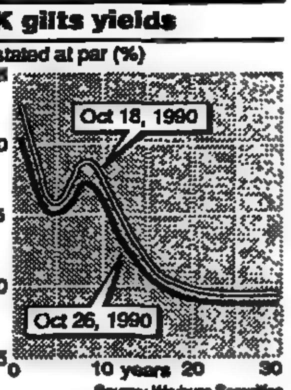
A return to funding could undermine the shaky equilibrium built up since sterling was locked into the ERM and stern comments have issued from Mr John Major, the UK chancellor, that both ERM euphoria and gloom were overdone.

However, optimism is still discernible in today's LBS forecast of the fiscal and monetary framework. Recession and inflation advance the return to budget balance by one year, that is true. But there is still a £2.4bn surplus this and, on the full-funding rule, that means no net gilt sales in the next four years.

Rachel Johnson

UK gilts yields

Restated at par (%)



Source: Warburg Securities

US MONEY AND CREDIT

Budget deal sets stage for Fed easing

THE stage could be set for the Federal Reserve to engineer a cut in short-term interest rates.

Politically, the passage by Congress of the budget compromise, and President Bush's assurances that he will sign it into law, may allow Mr Alan Greenspan, the Fed chairman, to ease. Economically, some statistics due out this week could give the Fed an opening to ease, provided they underline the dangers of the US slipping into recession.

Third-quarter GNP figures, due tomorrow, are unlikely to be the trigger, since analysts expect them to present a healthier view of the economy than in the second quarter, with growth increasing from 0.4 per cent to around 1 per cent.

However, much of that growth may stem from inventory accumulation – particularly of motor vehicles – and statistical technicalities are likely to reduce the inflation rate used as a GNP deflator. Furthermore, growth may prove to have been strong early in the quarter, only to slow in September.

The October employment report, due out on Friday, will provide the first real glimpse of the economy's performance in the current quarter – analysts expect a slow-down to really bite.

When it does decides to move, however, the Fed's action is hardly going to be dramatic – probably shaving 25 basis points off the Fed funds rate, to 7.75 per cent. The market is already anticipating this. The Fed's room for manoeuvre remains severely limited, with strong inflationary forces still in the system, the dangers of recession still far from clear, and the dollar already so weak.

Mr Greenspan said some weeks ago the Fed would, in setting policy, be looking at how the markets reacted to the budget. But the market's initial response is likely to be muted. As Mr Robert Brusca of Nikko Securities puts it: "The market reaction is telling the Fed to go take a nap."

This week the market will also have to take on board the Treasury's large November refunding. Details will be announced on Wednesday. Treasury officials acknowledge that the government will be raising more than August's $32.25bn, and analysts are expecting a package of $33bn.

This flood of paper, and lack of foreign enthusiasm for it, may further steepen the yield curve, with buyers also made edgy at the longer end by buoyant GNP figures, the possibility of a further decline in the dollar, and the yo-yoing price of oil in response to every rumour out of the Gulf.

The yield curve steepened last week by five basis points from the 10- to two-year maturities, with the 30- to 10-year spread unchanged, and strength at the short end was underlined on Friday when a delayed auction of one-year bills attracted a 4.65-to-1 bid to cover ratio and an average discount rate of 7.01 per cent, the lowest in nearly 2½ years.

The short end of the government market may also be benefiting from a flight to quality, with yield spreads relative to Treasuries widening in the corporate market amid concerns about credit quality.

This was underlined last week when Citicorp had to raise the dividend rate on a tranche of auction rate preferred stock to 12.5 per cent to ensure a successful auction. Confidence in the nation's largest bank is so impaired that, as the newsletter Grant's Interest Rate Observer said: "At the margin its cost of capital is higher than that of any customer to which its credit department would comfortably want to lend."

Martin Dickson

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (wk average)	7.88	7.88	8.39	9.92	7.78
Three-month Treasury bills	7.37	7.47	7.34	9.11	7.20
Six-month Treasury bills	7.45	7.53	7.51	9.37	7.18
Three-month prime CDs	8.02	8.13	8.19	10.35	7.65
30-day Commercial Paper	7.95	8.10	8.15	9.95	7.87
90-day Commercial Paper	7.90	8.06	8.05	10.05	7.70

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wks ago
Seven-year Treasury	101.38	[illegible]	8.47	8.47	8.48
20-year Treasury	104.72	[illegible]	8.80	8.76	8.80
30-year Treasury	99.72	[illegible]	8.77	8.74	8.94

Money supply: In the week ended October 15, M1 fell by $2.7bn to $819.5bn

NRI TOKYO BOND INDEX

December 1983 = 100	25/10/90	Average yield (%)	Last week	12 wks ago	26 wks ago
	PERFORMANCE INDEX				
Overall	145.63	7.77	144.85	144.57	142.99
Government Bonds	142.33	7.69	141.48	141.59	140.61
Municipal Bonds	147.91	7.72	147.19	146.52	144.46
Govt.-guaranteed Bonds	150.54	7.80	149.59	149.39	146.78
Bank Debentures	144.18	7.76	143.56	142.42	140.43
Corporate Bonds	147.84	8.12	147.16	148.49	145.98
Yen-denom. Foreign Bonds	150.40	8.75	150.23	154.69	152.27
Government 10-year†	7.26		7.31	7.05	6.88

† Estimated par yield

Source: Nomura Research Institute

FT/AIBD INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Chg on day	Chg on week	Yield
ABBEY NATIONAL 6 7/8 93	150	99¼	[illegible]	[illegible]	+¼	8.95
ABN 9 1/8 94	200	100½	[illegible]	[illegible]	[illegible]	9.02
AETNA LIFE & CAS 7 3/4 16	200	96⅞	[illegible]	[illegible]	+⅛	8.06
ALBERTA PROVINCE 8 5/8 96	750	97	[illegible]	[illegible]	+⅛	9.29
ALBERTA PROVINCE 9 3/8 95	600	101⅛	[illegible]	[illegible]	+⅛	9.09
AMERICAN EXPRESS 0 00	400	37	[illegible]	[illegible]	+⅛	10.32
AMERICAN GENERAL 9 3/4 95	100	97⅛	[illegible]	[illegible]	+⅛	10.35
ANHEUSER-BUSCH 9 1/8 92	100	100¼	[illegible]	[illegible]	+⅛	8.95
ASIAN DEV BANK 0 04	1000	27⅝	[illegible]	[illegible]	+⅛	9.74
AUSTRALIA 11 95	200	106⅛	[illegible]	[illegible]	+⅛	9.24
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
QUEENSLAND GOVT 10 1/4 95	100	103⅛	[illegible]	[illegible]	+⅛	9.36
RALSTON PURINA 11 3/4 95	150	104⅝	[illegible]	[illegible]	[illegible]	10.30
REED PUBLISHING 9 5/8 97	150	98⅝	[illegible]	[illegible]	[illegible]	10.00
REYNOLDS (RJ) 10 1/4 93	300	92⅝	[illegible]	[illegible]	[illegible]	13.70
SAINSBURY 9 1/8 96	150	98⅝	[illegible]	[illegible]	+⅛	9.40
SARA LEE 9 3/8 95	150	99⅞	[illegible]	[illegible]	+⅛	9.40
SAS 10 99	200	99⅞	[illegible]	[illegible]	[illegible]	10.00
SAS 10 1/8 95	150	101⅝	[illegible]	[illegible]	-⅛	9.70

	Issued	Bid	Offer	Chg on day	Chg on week	Yield
SASKATCHEWAN 15 92	150	109⅜	[illegible]	[illegible]	[illegible]	8.92
SBAB 9 1/2 95	200	102⅛	[illegible]	[illegible]	+⅛	9.03
SEAGRAM CO 8 1/2 96	100	94⅞	[illegible]	[illegible]	+⅛	9.85
SEARS O/S FIN 0 98	500	44⅝	[illegible]	[illegible]	+⅛	10.98
SEARS O/S FIN 11 5/8 93	150	103⅛	[illegible]	[illegible]	+⅛	10.09
SKANDIA INTL 7 1/4 92	200	97⅝	[illegible]	[illegible]	[illegible]	9.02
SNCF 7 1/4 96	175	95⅛	[illegible]	[illegible]	+⅛	8.70
SNCF 9 1/2 98	150	100⅝	[illegible]	[illegible]	+⅛	9.38
STATE BK STH AUST 9 1/4 93	100	100⅝	[illegible]	[illegible]	[illegible]	9.02
STATE EL VICTORIA 10 92	100	102⅛	[illegible]	[illegible]	[illegible]	8.75
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FERRO DEL STAT 5 3/8 95	500	92⅝	[illegible]	[illegible]	-⅛	9.18
IND BK JAPAN FIN 5 5/8 96	200	84	[illegible]	[illegible]	-⅛	9.48
INTER AMER DEV 7 1/4 99	300	89⅛	[illegible]	[illegible]	[illegible]	9.11
LUFTHANSA INT FIN 5 7/8 98	500	82⅝	[illegible]	[illegible]	+⅛	9.25
QUEBEC HYDRO 6 3/4 99	300	85⅛	[illegible]	[illegible]	+⅛	9.32
SWEDEN 6 1/8 98	300	84⅝	[illegible]	[illegible]	+⅛	9.11
WORLD BANK 0 15	2000	13⅝	[illegible]	[illegible]	+⅛	8.25
WORLD BANK 5 3/4 96	300	85⅛	[illegible]	[illegible]	[illegible]	9.24
WORLD BANK 7 1/8 95	500	93	[illegible]	[illegible]	[illegible]	9.16

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Chg on day	Chg on week	Yield
AIR CANADA 6 1/4 PERP	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ASIAN DEV BANK 6 10	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
AUSTRIA 4 5/8 98	[illegible]	[illegible]	[illegible]	[illegible]	+1¼	[illegible]
COUNCIL EUROPE 4 3/4 98	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
EEC 5 1/2 00	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
EIB 5 3/4 93	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FINLAND 5 3/8 95	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
GENERAL MOTORS 7 1/2 95	[illegible]	101⅛	[illegible]	[illegible]	[illegible]	[illegible]
JAPAN DEV BK 5 1/2 95	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
MOUNT ISA FINANCE 5 3/4 94	[illegible]	80¼	[illegible]	[illegible]	+1¼	[illegible]
NEW ZEALAND 4 7/8 93	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

WARRANTS	Expiry	Price	Chg on day	Prem
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
MITSUI REAL ESTATE DEV	[illegible]	[illegible]	[illegible]	[illegible]
NICHII	20/03/92	6⅝	[illegible]	[illegible]
NIPPON MEAT PACKERS	17/09/93	7⅛	[illegible]	[illegible]
NIPPON OIL	17/09/92	7⅝	[illegible]	[illegible]
SUMITOMO CHEM	14/08/92	8⅛	[illegible]	[illegible]
TOYO SASH	20/01/92	6⅛	[illegible]	[illegible]
TOYOTA MOTOR	27/04/93	25⅛	[illegible]	[illegible]
UNITIKA	15/07/93	25	[illegible]	[illegible]
YAMANOUCHI PHARM	20/07/93	7⅛	[illegible]	[illegible]
[illegible]	30/06/92	10⅛	[illegible]	[illegible]

STRAIGHT BONDS: Yield to redemption of the bid-price. Amount issued is expressed in millions of currency units.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn = current coupon.
CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant ex yld = exercise yield at current warrant price.

Closing prices on October 26

FLASH LIMITED SERIES C
U.S. $37,000,000
Secured Floating Rate Notes Due 1992

In accordance with the conditions of the notes, notice is hereby given that for the six-month period 29th October 1990 to 29th April 1991 (182 days) the notes will carry an interest rate of 8.335% p.a. Relevant interest payments will be as follows:

Notes of U.S. $100,000
U.S. $4,213.81 per coupon.

THE SANWA BANK LIMITED
Agent Bank

BANQUE NATIONALE DE PARIS

USD 250,000,000 Floating Rate Notes Due 1997

Applicable interest rate for the interest period from 24 October 1990 up to 24 January 1991 as determined by the reference Agent is 8⅞ per cent per annum namely USD 2186.25 per bond of USD 100,000

THE FINANCE COMPANY OF SOUTH AUSTRALIA LIMITED

US$100,000,000 Floating Rate Notes 1989-94

Guaranteed by Beneficial Finance Corporation Limited

Holders of Floating Rate Notes of the above issue are hereby notified that for the third interest period from October 29, 1990 to April 29, 1991, (with 182 days), the following information is relevant.

1.	Applicable Interest rate	8⅜% per annum
2.	Interest payable	US$10,585.07 per US$250,000 nominal
3.	Third interest payment date	April 29, 1991

October 26, 1990

Bank of America International S.A
Luxembourg
Principal Paying Agent

BA ASIA LIMITED
Hong Kong
Reference Agent

NOTICE TO HOLDERS OF
All Issues in respect of which
TOYO TRUST COMPANY OF NEW YORK
is acting as Trustee, Fiscal Agent, Custodian, or in any other similar capacity

NOTICE IS HEREBY GIVEN that with effect from December 3, 1990 the principal office of Toyo Trust Company of New York will be as follows:

299 Park Avenue
39th Floor - West Building
New York, New York 10017 U.S.A.
Tel: (212) 573-6000 Fax: (212) 573-8686 Telex: 229956 TTCO UR

TOYO TRUST COMPANY OF NEW YORK

Dated: October 29, 1990

INTERNATIONAL CAPITAL MARKETS

INTERNATIONAL BONDS

Swiss safe haven dictum holds true

IN TIMES of turmoil, Switzerland has always been something of a safe haven. In the shadow of the Gulf crisis the dictum appears to hold true. The Swiss bond market is open for business – but only at a price.

Last week borrowers raised SFr835m in the market and SFr1bn the week before, equivalent to the levels of a year ago. Yet issuance is dominated by Japanese industrial companies, offering access to the Tokyo stock market through either convertible bonds or equity warrants.

Moreover, the cost of funds has soared over the past 18 months, leading some analysts to question the quality of business coming to the market.

Convertible Swiss franc bond issues now carry a coupon of around 6⅛ per cent, with a yield-to-put of 9 per cent or more – about 150 to 200 basis points above interbank borrowing rates.

At the beginning of 1989, typical coupons were around ⅛ per cent, with a yield-to-put of around 4 per cent.

When the market was reopened in July following a three-month hiatus, coupons stood at around 4 per cent, with a yield-to-put of 6 per cent. Thus, although the cost of borrowing has been increasing for some time, new levels have been set since Iraq's invasion of Kuwait.

But faced by a sharp tightening of bank lending at home, Japanese companies are turning to the Swiss market to finance expansion.

Smaller companies unable to tap other sources can still, at a price, raise funds in Switzerland. One reason for this relative buoyancy is that Japanese equity-linked paper has been issued into the Swiss franc sector for a decade. Swiss franc investors have a long experience of convertible and warrant bonds.

For non-Japanese borrowers, the outlook is rather bleaker. The conservative Swiss investors have been stung by experience with issues from companies including RJR Nabisco, Bond Corporation, and Wang. Event risk and leverage are alien to the market.

The biggest, triple-A corporate borrowers are still acceptable, but issues from 'second-tier' borrowers trade at a substantial discount to face value.

Some companies have turned this to their advantage. Mountleigh, the UK property group, recently bought in SFr115m of bonds via a tender offer. The paper was trading between 40 per cent and 70 per cent of redemption value. However, these prices imply yields of more than 30 per cent – a prohibitive barrier to entry for any new issuers with anything less than an impeccable rating.

Polly Peck is the biggest UK corporate borrower in the Swiss franc market, but other companies with outstanding issues include British Land, Enterprise Oil, Maxwell Communications and Standard Chartered.

Polly Peck's decision to call in the administrators with SFr650m of bonds outstanding is a further blow to confidence. The bondholders are, in theory, covered by highly protective bond documentation, including covenants which allow for early redemption in the event of any other default by the issuer on any other obligations.

However, in a corporate collapse of the speed of Polly Peck, such protection proved illusory. On Thursday, Warburg Soditic acted unilaterally to protect the bondholders by invoking the early redemption clause. But, alas, it was too late. The investors will now have to take their place in the queue alongside other senior unsecured creditors. Negotiations with the administrators are likely to be long and painful.

Simon London

EUROMARKET TURNOVER ($m)

Primary Market	Straights	Conv	FRN	Other
US$	515.5	0.0	287.5	12,420.9
Prev	1,016.8	0.0	150.0	14,389.7
Other	1,548.5	129.7	225.2	8,009.0
Prev	1,487.6	3.2	40.1	6,601.3
Secondary Market				
US$	14,283.9	1,003.7	5,638.5	7,080.4
Prev	19,075.5	954.6	9,188.6	7,394.7
Other	28,989.9	1,263.5	6,245.7	37,632.4
Prev	25,730.2	1,498.1	8,116.3	41,216.5

	Cedel	Euroclear	Total
US$	15,010.4	[illegible]	41,210.4
Prev	20,220.8	31,949.1	52,169.9
Other	28,918.6	50,085.3	79,003.9
Prev	32,993.4	51,699.9	84,693.3

Week to October 25, 1990 Source: AIBD

INTERNATIONAL LENDING

The syndicated loan boot shifts to the other foot

THE LAST time the syndicated loans market experienced the kind of turbulence it is experiencing now was in 1982.

Then, the announcement by Mexico that it could not pay its foreign debts triggered a widespread retreat from sovereign lending by banks. Indiscriminate lending to governments in Latin America and elsewhere was followed by an equally indiscriminate pullback from such lending.

To find a parallel in the retreat from corporate lending, bankers with long enough memories go back to 1974, following the collapse of Bank Herstatt and the quadrupling of oil prices. At that time, the syndicated loan market was relatively underdeveloped and most companies carried bilateral and private credit lines with individual banks.

The turbulence in the market in recent weeks is evidence of a shift in the balance of power between corporate borrowers and their bank lenders. After years in which corporate treasurers and finance directors could almost dictate terms to their bankers, the boot now seems to be on the other foot.

This sounds like good news for bankers, since it means the returns on their future lending will be higher. In fact, it is a silver paper lining on a storm cloud since banks must live with their recent folly.

For the last eight years, international banks have been piling into corporate lending. In the scramble for business, they have pushed interest margins down to levels where to lend money has been to lose it. At the same time, they have tolerated among their corporate customers higher levels of debt. In this free-for-all, the traditional relationships between banks and corporate customers have been loosened.

It has taken a coincidence of factors, underlined by new international standards of bank capital adequacy, to change this picture. Banks have known about these new rules, which come into effect in 1992, for some time. Many are rather belatedly becoming concerned that they might not reach the minimum 8 per cent ratio of capital to assets.

Among them are the Japanese banks, who are responsible, it is estimated, for half of all new international bank lending in the late 1980s. With their capital being eaten away by the collapse in the Japanese stock markets, they have sharply curtailed their international lending. So have, for their own reasons, the American, Arab and German banks.

This follows the build-up of debt in companies, especially those in the US, UK, Australia and Canada, to unprecedented levels. Their vulnerability to banks' new-found caution and the prospect of recession in the US and UK is correspondingly high and underlined by some of the half a dozen corporate failures seen so far this year in the UK. (Ironically, German and Japanese companies generally tolerate higher levels of debt than their Anglo-Saxon counterparts, but appear to be better cushioned by the closeness of their relationships with their main banks.)

If this results in a credit squeeze, it may be coming earlier in the current recession than in previous ones. This is not only a function of the unusually high levels of corporate debt. Because of the Basle accords, banks cannot afford to let their capital take the strain of losses on their corporate loans. Because they cannot raise equity, they have to try to move earlier to avoid losses.

Furthermore, sales by some banks – particularly Arab and US institutions – of loan portfolios this year at a discount of face value creates a secondary market for bank loans. This secondary market may be sending a message: there is presumably little incentive for banks to pick up new assets at yields below those prevailing in the secondary market.

The uncertainty in the syndicated loans market was underlined last week by the row between PowerGen and National Power, the two UK generating companies to be privatised in February. The two companies do not have a choice about going to market, since the UK government has determined that working capital facilities must be in place at the time of privatisation.

Both expected to pay significantly more to banks than the electricity distribution companies which preceded them to market. What divides them is how much more.

To the surprise of National Power, which believed it had an agreement with PowerGen that they approach the bank market together, PowerGen moved early to seek underwriters on its £1bn five-year credit through Samuel Montagu and SG Warburg. It was seeking banks at a commitment fee of 12½ basis points, rising to 15 after two years, and an interest margin of 25 basis points.

Although underwriters had been found for half the credit by the end of last week, there were concerns that the pricing was too fine and sufficient underwriters could not be found. However, after Manufacturers Hanover and Barclays launched their £1.5bn credit for National Power, a repricing of the PowerGen deal became no longer a debate but a certainty.

National Power will pay a commitment fee of 18.75 basis points for two years, and 20 basis points for the remaining three, and an interest margin of 37½ basis points, rising to 40. Underwriting fees of 7½ basis points are also payable. PowerGen was immediately forced to reprice to 18.75 basis points as a commitment fee and a 37½ basis points interest margin.

National Power says its intelligence and that of its advisers, Lazards, suggested that PowerGen would not have been underwritten at the proposed price. That has been underlined, it suggests, by the fact that four banks have already declined to join the deal as underwriters. For its part, PowerGen appears to believe its pitch was queered by its rival which, by paying too much, has spoiled the syndicated loans market for other corporate borrowers.

In other deals Ratners, the UK jeweller, added its name to the spate of companies forced to reprice financings. The commitment fee on its $300m three-year credit, led by Chase and Barclays, was raised to $\frac{3}{16}$ point from ⅛, and the interest margin boosted by 12½ basis points to 37½. If the loan is more than half drawn, the margin will be 47½ basis points instead of 37½.

Showing that not only UK companies are suffering, the previous week's repricing of a £750m financing for Elf, the French state oil concern, led by Citicorp and J. P. Morgan, did not appear to provide any guarantee of success.

Stephen Fidler

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Tonami Transportation♦	100	1994	4	(5⅛)	100	Kankaku (Europe)	-
Inst.D'Credito Oficial(j)†♦	450	1997	7	(j)	100	Goldman Sachs	-
Japan Devt.Bk♦	200	1997	7	9¼	100	JP Morgan Secs.	9.250
Sumitomo Chem.BV(o)†♦	20	1994	4	(o)	100.10	Sumitomo Tst.Int.	-
AUSTRALIAN DOLLARS							
Eksam♦	50	2000	10	6.2	64	Mitsui Taiyo Kobe	12.775
Nordbanken♦	40	2000	10	7.9	73	LTCB Int.	12.845
STERLING							
Barclays Bk plc♦	250	1997	7	12¼	101⅛	BZW Secs.	12.500
D-MARKS							
World Bank♦	750	2000	10	9	101½	Deutsche Bk	8.769
EIB♦	400	1997		9	101⅛	Deutsche Bk	8.778
SWISS FRANCS							
K'gane Kosakusho(a)★★§♦	80	1994	-	6	100	Bank Leu	6.000
Tohoku Electric Power♦	200	1997	-	7½	101	UBS	7.312
Hokuetsu Ind.(e)★★♦	50	1995	-	5½	100	BSI	5.500
Ricoh Elemex Corp(f)★★§	45	1995	-	6	100	Wirtschafts & Privatbk	5.990
Nippon Mic(g)★★§	30	1995	-	6⅛	100	Swiss Volksbank	6.114
Sokkisha Co.(c)★★♦♦	60	1995	-	5⅝	100	BSI	5.625
Chinon Ind.(d)★★♦♦	40	1994	-	5½	100	Bank Leu	5.500
N.East Fin.Japan♦	100	2000	-	7¼	101½	Bque.Paribas Suisse	7.036
Fuji Seiko(h)★★♦	35	1995	-	5½	100	HandelsBank Natwest	5.500
Jaleco(i)★★§	30	1995	-	6⅛	100	Nomura Bk (Switz)	6.114
Ando Corp★★♦	30	1995	-	8	100	Dai-Ichi Kangyo Bk	8.000
Air France(m)♦	100	2000	-	7⅝	101⅝	UBS	[illegible]
Yamada Denki Co.(l)★★§	35	1995	-	6⅛	100	Nomura Bk (Switz)	6.114
Nippon Tochi-Tatemono★★♦	20	1997	-	8	100½	Dai-Ichi Kangyo Bk	7.904
ECUs							
Isveimer(k)†♦	100	1995	5	(k)	100	CSFB	-
LIRE							
Euro.Coal & Steel Comm.♦	225bn	1995	5	12	101.70	Cariplo	11.534
GUILDERS							
NV Nederlandse Gasunie♦	125	1995	5	9	100¾	SBCI NV	8.808
YEN							
Mitsui Real Estate♦	7bn	1995	5	8⅛	101½	Nomura Int.	7.656
Mitsui Real Estate(b)♦	5bn	1995	5	8	101½	Nomura Int.	7.779
Gen.Elec.Cap.Corp♦	30bn	1992	2	8	101.025	IBJ Int.	7.430
Credit Local de France♦	25bn	1992	2	8	101⅛	Nikko Secs.(Europe)	7.375
Onoda Cement Co.♦	10bn	1995	6	7⅞	101½	Daiwa Europe	7.555
LUXEMBOURG FRANCS							
Genfinance (Lux.) S.A★★♦	500	1997	7	9¾	101¾	BGL	9.366
Banque Worms★★♦	400	1996	6	9⅞	102	BGL	9.424
ABN Canada★★♦	650	1997	7	9¾	101.55	BIL	9.438
Tractabel Inv.Int.★★♦	1bn	1995	5	9¾	101.95	BGL	9.245
Kredietcorp S.A★★♦	500	1997	7	9¾	102.10	Kredietbank S.A	9.328
BBV Int.Fin Ltd★★♦	750	1996	5⅓	9⅞	101.85	Credit Europeen	9.394
Fin.Danish Ind.Int.★★♦	1bn	1993	3	10	101.95	Kredietbank S.A	9.227
Bque.Indosuez (Paris)★★♦	300	1996	6	9¾	[illegible]	Banque Indosuez (Lux.)	9.311
CPI S.A★★♦	300	1995	5⅓	9⅞	102	Banque Paribas (Lux.)	9.357
CBR Fin.S.A (Lux.)★★♦	600	1997	7	9¾	101⅞	BGL	9.373
FINNISH MARKKA							
Oko Mortgage Bk(n)♦	(n)	1994	3¾	13½	(n)	Unibank/Okobank	-

★★Private placement. §Convertible. ♦With equity warrants. †Floating rate note. ♦Variable rate note. ♦Final terms. a) Put option 30/11/92 107% to yield 9.194%. Conversion premium fixed at 2.5%. b) Coupon payable semi-annually. Non-callable. c) Early redemption 1/11/93 102% decreasing ½% semi-annually. Exercise premium fixed at 2.5%. d) Exercise premium fixed at 2.515%. Non-callable. e) Callable 15/11/93 102% declining ½% semi-annually. f) Put option 30/9/93 109⅞% to yield 9.058%. g) Put option 31/3/93 at 108⅛% to yield 9.287%. h) Early redemption 20/5/93 101¼% decreasing by ¼% semi-annually. i) Put option 31/3/93 108⅛% to yield 9.27%. j) Coupon pays 8bp over 6-month Libor. Non-callable. k) In form of fiduciary issue by Kredietbank S.A (Lux.) representing undivided interests in a loan made to Isveimer. Coupon pays 15bp over 6-month Libor. Non-callable. l) Put option 31/3/93 108⅛% to yield 9.271%. m) Callable after 8 years 101½% declining by ¼% annually. n) Tap issue. Amount: maximum of Finnish Markka 500mn. Issue price: variable depending on market conditions. Non-callable. o) Coupon pays 30bp over 6-month Libor. Non-callable. Note: Yields calculated on AIBD basis.

WORLD STOCK MARKETS

AUSTRIA

BELGIUM/LUXEMBOURG

DENMARK

FINLAND

FRANCE

FRANCE (continued)

GERMANY

GERMANY (continued)

ITALY

ITALY (continued)

NETHERLANDS

NORWAY

SPAIN

SWEDEN

SWITZERLAND

SOUTH AFRICA

JAPAN

AUSTRALIA

AUSTRALIA (continued)

HONG KONG

MALAYSIA

SINGAPORE

CANADA

TORONTO
Closing prices October 25

MONTREAL
Closing prices October 26

INDICES

NEW YORK DOW JONES

STANDARD AND POOR'S

NEW YORK ACTIVE STOCKS

TRADING ACTIVITY

CANADA TORONTO

TOKYO – Most Active Stocks

Friday 26 October 1990

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Isuzu Motors	20.4m	800	+20	N'matsu Cnstrn	9.3m	1,350	-30
Aoki Corp	16m	965	+15	Fuji Heavy	8.6m	660	+31
Mitsui Shpbldng	11.1m	630	-23	K'saki Steel	8.5m	460	+9
Takeda Chml	10.8m	1,630	+60	Nippon Steel	8.3m	455	-10
S'tomo Metal	10m	500	-14	Toyobo	6.6m	665	+57

هكذا من الأصل

FT MANAGED FUNDS SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 44p per minute peak and 33p off peak, inc VAT

AUTHORISED UNIT TRUSTS

[illegible]

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The maximum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point, a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH Tel: 071-379-[illegible]

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Target Trust Mngrs Ltd (1600)F
Target Hse, Gatehouse Rd, Aylesbury, Bucks
Admin 0296 394000 Dealing 0296 312156

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
American Eagle	5	56.26	56.26	60.08	1.28	41482
Australia	5	5.396	5.396	5.777	4.62	41483
Equity	5	138.3	138.3	148.6	5.18	41486
Euro Spec Sits	5	98.03	98.03	105.4	0.65	41487
Financial	5	24.21	24.21xd	26.07	3.33	41488
Global Opps Inc	5	56.94	56.94xd	61.18	0.00	41489
Global Opps Acc	5	57.37	57.37	61.64	0.00	41490
Gold & Gen Inc	5	35.85	35.85xd	38.53	1.04	41491
Gold & Gen Acc	5	66.81	66.81	71.82	1.04	41492
Income	5	85.57	85.57xd	92.09	6.73	41493
Japan & General	5	117.1	117.1	125.9	0.00	41494
Preference Share	5	17.35	17.64xd	18.97	11.99	41497
UK Capital	5	76.01	76.01	81.61	4.28	41500
World Income	5	52.26	52.26xd	56.06	6.30	41501
Worldwide Capital	5	144.7	144.7	156.7	3.51	41502

Templeton Unit Trust Managers Ltd (1200)F
Atholl Crescent, Edinburgh EH3 8HA 031 228 3932

Global Growth Acc	6	90.65	91.31	97.66	3.71	46671
Global Growth Inc	6	87.10	87.73	93.83	3.71	46672
Global Balanced Acc	6	91.21	91.66	98.05	4.94	46669
Global Balanced Inc	6	84.97	85.41	91.35	4.94	46670
Value Tst Acc	6½	67.19	68.24	72.98	4.74	42642
Value Tst Inc	6½	65.51	66.53	71.16	4.74	46990
Intl Pen & Ch'ties Inc ♥	2	88.52	89.82	94.30	3.84	46989
Intl Pen & Ch'ties Acc ♥	2	85.42	86.68	91.00	3.84	41505

Thornhill Unit Trust Managers Ltd (1200)F
28 St John's Sq, London EC1M 4AE 071-251 6767

Capital	5	46.37	46.63	49.60	-	47874
Overseas	5	39.95	40.11	42.66	-	45776

Thornton Unit Managers Ltd (1000)F
33 Cavendish Sq., London W1M 0DH 071-493 7262
Dealing 071-493 8545

American Opps	5	40.24	40.24	42.91	0.26	41506
(Accum Units)	5	41.41	41.41	44.16	0.26	41507
Cash	0	50.75	50.75	50.75	13.62	45247
Accum Units	0	50.75	50.75	50.75	13.62	45248
European Opps ♦	5	58.64	58.64	62.40	0.00	41508
(Accum Units) ♦	5	58.96	58.96	62.74	0.00	46366
Far Eastern Opps	5	103.03	103.33	110.21	0.00	41509
(Accum Units)	5	103.69	103.99	110.92	0.00	41510
Golden Opps	5	26.20	26.20	27.81	0.00	41511
(Accum Units)	5	26.95	26.95	28.61	0.00	46367
Intl Hi-Yield	5	49.50	49.50	52.79	5.22	41512
(Accum Units)	5	53.96	53.96	57.54	5.22	46368
Sanyo Japan Tst	5	62.76	62.76	66.83	0.00	41513
(Accum Units)	5	62.76	62.76	66.83	0.00	41514
Kangaroo	5	23.55	23.55	25.00	1.67	41515
(Accum Units)	5	24.59	24.59	26.10	1.67	46369
Latin Dragon	5	35.37	35.53	37.89	0.00	43157
(Accum Units)	5	35.37	35.53	37.89	0.00	43158
Oriental Income	5	28.64	28.64xd	30.54	5.73	41516
(Accum Units)	5	33.52	33.52xd	35.75	5.73	41517
Tiger	5	112.55	112.55	120.04	0.92	41520
(Accum Units)	5	114.70	114.70	122.34	0.92	41521
UK Hi-Yield	5	35.00	35.00	37.33	6.13	41522
(Accum Units)	5	40.96	40.96	43.69	6.13	46302
UK Smllr Cos	5	44.72	44.72	47.82	0.89	41523
(Accum Units)	5	48.73	48.73	52.11	0.89	41524

Murray Johnstone UT Mngmt
Murray Exempt Funds

	Bid Price	Offer Price	Yield Gross	City-line
Amer Expt Oct 23	37.2	38.6	2.80	41064
Euro Expt Oct 23	47.3	49.6	3.00	41065
Fixed Int Ex Oct 23	43.6	44.8	10.66	46594
Japan Expt Oct 23	42.9	44.7	0.88	41066
Managed Ex Oct 24	38.2	39.7xd	5.41	41067
SE Asia Expt Oct 23	56.0	58.8xd	4.57	41068
Sm Cos Expt Oct 23	29.7	31.1	4.94	41069
UK Eqty Ex Oct 23	36.7	38.5	5.22	41070

Phillips & Drew Fund Management Ltd

Small Co's Oct 3	587.8	630.6	5.55	41138
Do Accum	653.7	701.2	5.56	41139
Int. Expt Oct 24	146.9	149.2	4.41	41140
UK Index Oct 3	958.0	975.6	5.25	46945
Do Accum	1009	1029	5.25	46946
Convertible Oct 19	77.66	80.20	9.48	46938
World ex UK Index Oct 22	666.7	675.8	2.22	47887
Do Accum	666.7	675.8	2.22	47888
Japan Index Oct 22	574.6	583.0	0.62	47881
Do Accum	575.7	584.0	0.62	47882
USA Index Oct 22	730.4	735.1	3.86	47885
Do Accum	740.7	745.4	3.86	47886
Europe ex UK Index Oct 22	801.8	821.8	3.08	47879
Do Accum	814.3	[illegible]	[illegible]	[illegible]
Pacific ex Jap Index Oct 22	733.7	[illegible]	[illegible]	[illegible]
Do Accum	747.6	769.4	5.20	47884
Managed Exempt Oct 24	88.97	90.68	5.75	40338
American Exempt Oct 24	96.76	98.48	4.26	40574
European Exempt Oct 24	104.6	105.9	5.28	40628
Japan Exempt Oct 24	107.2	108.4	0.08	40635
Pacific Basin Oct 24	99.25	102.0	4.28	40636

NM Rothschild Asset Management Ltd

NC Managed	51.7	55.1xd	4.54	40339
NC Property	174.3	191.2	-	41205

J. Rothschild Fund Managers Ltd

Intl Exempt Accum	117.6	118.6	4.23	44085

Stewart Ivory & Co Ltd

Saints PPP Sept 14	224.9	236.8	-	41422

Closed to new business

Thornton Unit Managers Ltd

Managed Exempt Oct 15	82.94	87.75xd	4.71	46975
(Accum Units)	85.24	90.18xd	4.71	46976

Touche Remnant Unit Tst Mngt Ltd

TR Exempt European	944	963	2.76	47801
TR Exempt Nth Amer	684	700	4.64	47802
TR Exempt Pac Basin	720	730	1.73	47803

INSURANCES

Continued on next page

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National Provident Institution
48 Gracechurch St, London EC3P 3HH 071-623 4200

	Bid Price	Offer Price	Yield Gross	City-line
Managed	301.5	317.4	–	43163
UK Equity	376.8	396.7	–	43164
Overseas Eq	289.8	305.1	–	43165
American	206.8	217.7	–	43166
Far East	316.3	333.0	–	43167
Property	190.8	200.9	–	43168
Fixed Int	231.5	243.7	–	43169
Indexed Gilt	144.0	151.6	–	43170
Deposit	171.3	180.4	–	43171
Pension Fund (Accum Units)				
Managed	416.9	438.9	–	43173
UK Equity	479.3	504.6	–	43175
Overseas Eq	478.3	503.5	–	43177
American	274.6	289.1	–	43179
Far East	527.5	555.3	–	43181
Property	236.8	249.3	–	43183
Fixed Int	281.0	295.8	–	43185
Indexed Gilt	158.1	166.5	–	43187
Deposit	235.4	247.8	–	43189
NPI Pensions Management Ltd				
Managed Fund	1908.9	925.1	–	43190

Prices Oct 1 Next dealing Nov 1

Norwich Union Asset Management Ltd
PO Box 140, Norwich NR3 1PP 0603 606787

	Bid Price	Offer Price	Yield Gross	City-line
NUAM Funds				
Managed Fund	60.6	63.8	–	43191
Stock Market Mngd Fund	57.2	60.2	–	43192
Equity Fund	64.7	68.1	–	43193
International Fund	50.6	53.3	–	43194
European Fund	61.8	65.0	–	43195
North American Fund	47.4	49.9	–	43196
Pacific Fund	52.8	55.6	–	43197
Property Fund	86.4	90.9	–	43198
Fixed Interest Fund	52.4	55.2	–	43199
Index Linked Sec Fund	58.4	61.4	–	43200
Deposit Fund	65.7	69.2	–	43201
NUAM Retirement Plans				
Mixed Fund	65.8	69.3	–	43202
UK Ordinary Share Fd	74.5	78.4	–	43203
International Fund	55.2	58.1	–	43204
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Providence Capital Life Assc. Co Ltd – Contd.

	Bid Price	Offer Price	Yield Gross	City-line
Total Investment Bond				
UK Equity Initial	129.1		–	43429
UK Fixed Int Initial	107.4		–	43430
Intl Equities Initial	105.7		–	43431
UK Managed Initial	108.3		–	43432
Property Initial	145.9		–	43433
Money Initial	84.0		–	43434
Special Market Initial	97.5		–	43435
Japan Equity Initial	78.5		–	46762
North American Initial	61.9		–	43437
Pacific Initial	62.0		–	43438
Technology Initial	83.5		–	43439
Nat Resources Initial	44.2		–	43440
European Initial	83.8		–	43442
Residential Prop Init	93.9		–	43443
Swiss Equities Initial	30.5		–	43444
Hong Kong Initial	44.4		–	43445
UK High Inc Eq Init	58.0		–	43446
Int Fixed Interest Init	49.3		–	46408
Int Managed Init	50.1		–	46409
RIP Managed Init	[illegible]		–	46752
HIP Managed II Initial	[illegible]		–	41927
Broker Funds				
High Performance	62.3	65.7	–	43448
Towerhill Mngd Fd Acc	95.3	97.2	–	43447
YRA Executive Fd	84.8	89.4	–	43449
£ Global Growth Acc	123.8	130.0	–	47160
£ High Income Money Acc	132.1	139.3	–	47161
IM Balanced	46.9		–	47162
H.F. Speculator Fd	115.9		–	43451
PEP Accum II	103.3		–	46486
PEP Cautionary	66.9		–	47163
AAFS Int Man Fund	108.5		–	46551
Andrews-Green Inv Port	78.5		–	47914
Individual Pension Funds				
UK Equity Acc	203.7	214.9	–	43454
UK Fixed Interest Acc	194.7	205.4	–	43455
Intl Equities Acc	198.9	209.9	–	43456
UK Managed Acc	165.5	174.5	–	43457
Property Acc	211.4	223.1	–	43458
Money Acc	149.4	157.7	–	43459
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Royal Heritage Life Assurance Ltd – Contd.

[illegible]

Skandia Life Assurance Co Ltd – Contd.

[illegible]

Sun Alliance Group – Contd.

[illegible]

Windsor Life Assur Co Ltd
Windsor House, Telford, Shropshire 0952 292929

[illegible]

Sun Alliance International Life
PO Box 77, New St, St Peter Port, Guernsey 0481 714108

[illegible]

Target International Group

[illegible]

J. D. Ward Financial Services Ltd
9 Kingsway, London, WC2 B6XF. 01-836 4321

	Bid Price	Offer Price	Yield Gross	City-line
Target Mngd Bond	185.0	194.8	–	44591
Target Mngd Pension	112.7	118.7	–	44592
Albany Life Acc	165.2	173.9	–	41721
Albany Pens Acc	204.1	214.8	–	41722

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Orion Fund Limited
6 Front St., Hamilton, HM 11, Bermuda 809 295 4000

[illegible]

CANADA (SIB RECOGNISED)

Ivory & Sime Pembroke Inc
UK Agent: Ivory & Sime Plc One Charlotte Square, Edinburgh EH2 4DZ 031 225 1357

[illegible]

*Dealing Thursdays-Forward, Redemption Fee 1%

OFFSHORE INSURANCES

[illegible]

MANAGEMENT SERVICES

[illegible]

GUERNSEY (SIB RECOGNISED)

[illegible]

GUERNSEY (REGULATED)(**)

[illegible]

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JERSEY (SIB RECOGNISED)

IRELAND (SIB RECOGNISED)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

MONEY MARKETS

Dollar's longer view

While the dollar continues to look vulnerable, on lack of an interest rate advantage over countries with stronger economies, the International Monetary Fund has produced data suggesting that there could be an upward correction. The IMF figures are based on inflation rate differentials between economies, or purchasing power parities (PPP), and the Fund finds that on this basis the dollar is now heavily undervalued.

Interest rate factors could lead to a further weakening of the US currency in the short term, particularly if the Federal Reserve eases its monetary stance and the Bundesbank tightens.

The Bank of Japan has already tightened, but this may well be the top of the Japanese present interest rate cycle, according to Mr Neil MacKinnon, chief economist of Yamaichi in London. He believes the dollar could touch Y115 in the short term, but it is more likely to stabilise at a higher level. In the longer term however, cross rates are likely to get much nearer to PPP.

According to the IMF, this would mean a gradual appreciation of the dollar to levels of around Y170 and DM2.00, although a typical time period to reach PPP could be one to two years. In early 1981, for example, the actual and PPP values of the dollar were level at about Y200; but while the PPP still indicated a value of about Y200 at mid-1982, the actual value of the dollar had climbed to Y250. By late-1984 the two levels remained far apart, but by late-1985 they were equal again.

Based on similar data, sterling's value against the dollar should be about $1.56, but the pound's value against the D-Mark comes out at DM3.05, suggesting at least that the ERM central rate may be about right.

UK clearing bank base lending rate 14 per cent from October 8, 1990

£ IN NEW YORK

Oct.26	Close	Previous Close
£ Spot	1.9580-1.9590	1.9505-1.9515
1 month	0.98-0.96pm	0.96-0.95pm
3 months	2.71-2.68pm	2.70-2.67pm
12 months	8.43-8.33pm	8.50-8.40pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

		Oct.26	Previous
8.30	am	94.7	94.6
9.00	am	94.8	94.6
10.00	am	94.9	94.5
11.00	am	94.9	94.5
Noon		94.9	94.6
1.00	pm	94.9	94.6
2.00	pm	94.9	94.5
3.00	pm	94.9	94.5
4.00	pm	94.8	94.6

CURRENCY RATES

CURRENCY MOVEMENTS

Oct.26	Bank of England Index	Morgan** Guaranty Changes %
Sterling	94.8	-17.2
U.S Dollar	60.6	-18.6
Canadian Dollar	101.0	-0.8
Austrian Schilling	109.9	+11.8
Belgian Franc	111.7	-2.0
Danish Krone	110.8	+5.2
Deutsche Mark	119.0	+25.0
Swiss Franc	114.7	+23.6
Guilder	114.6	+16.3
French Franc	105.6	-11.1
Lira	99.5	-19.5
Yen	137.1	+73.1

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1985=100). **Rates are for Oct.25.

OTHER CURRENCIES

Oct 26	£	$
Argentina	11222.2 - 11247.5	5730.00 - 5740.00
Australia	2.4945 - 2.4965	1.2785 - 1.2795
Brazil	191.540 - 193.010	97.80 - 98.50
Finland	7.0410 - 7.0645	3.6060 - 3.6090
Greece	296.20 - 300.95	151.90 - 154.35
Hong Kong	15.2060 - 15.2195	7.7825 - 7.7845
Iran	125.00*	64.10*
Korea(Sth)	1388.90 - 1408.25	712.90 - 718.90
Kuwait	N/A	N/A
Luxembourg	61.05 - 61.15	31.20 - 31.30
Malaysia	5.2700 - 5.2825	2.6985 - 2.7005
Mexico	5709.55 - 5716.35	2916.00 - 2918.00
N.Zealand	3.2100 - 3.2150	1.6400 - 1.6420
Saudi Ar	7.2995 - 7.3335	3.7490 - 3.7510
Singapore	3.3505 - 3.3580	1.7180 - 1.7200
S.Af (Cm)	4.9560 - 4.9675	2.5360 - 2.5375
S.Af (Fn)	7.2790 - 7.4170	3.7315 - 3.8025
Taiwan	53.45 - 53.55	27.30 - 27.35
U.A.E.	7.1475 - 7.1825	3.6710 - 3.6740

* Selling rate

POUND-$ FORWARD EXCHANGE

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.9580	1.9484	1.9291	1.9088	1.8722

CHICAGO

POUND SPOT - FORWARD AGAINST THE POUND

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

EXCHANGE CROSS RATES

EURO-CURRENCY INTEREST RATES

FT LONDON INTERBANK FIXING

MONEY RATES

LONDON MONEY RATES

LONDON RECENT ISSUES

FIXED INTEREST STOCKS

RIGHTS OFFERS

BANK OF ENGLAND TREASURY BILL TENDER

WEEKLY CHANGE IN WORLD INTEREST RATES

FINANCIAL TIMES STOCK INDICES

	Oct 26	Oct 25	Oct 24	Oct 23	Oct 22	Oct 19	1990 High	1990 Low	Since Compilation High	Since Compilation Low
Government Secs.	79.96	80.06	79.95	79.67	78.76	79.10	84.20	74.13	127.4	49.18
Fixed Interest	86.78	86.75	86.86	86.86	86.80	86.87	92.91	83.80	105.4	50.53
Ordinary	1596.4	1617.5	1638.9	1654.7	1633.8	1621.5	1968.3	1510.4	2008.6	49.4
Gold Mines	170.6	172.7	169.6	169.0	168.4	169.7	378.5	163.2	734.7	43.5
FT-Act All Share	997.77	1009.72	1019.54	1025.74	1015.13	1010.12	[illegible]	982.09	1238.57	61.92
FT-SE 100	2063.1	2088.7	2110.5	2127.0	2102.0	2089.0	2463.7	1990.2	2463.7	986.9

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

LONDON SHARE SERVICE

BRITISH FUNDS

BRITISH FUNDS—Contd

INT. BANK AND O'SEAS

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

FOREIGN BONDS & RAILS

AMERICANS

AMERICANS—Contd

CANADIANS

Continued on next page

LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 44p per minute peak and 33p off peak, inc VAT

BANKS, HP & LEASING

Market Cap. £m	Stock	Price	Week % change	Y'ld Gr's	Last xd	Dividends Paid	City-line
2,364.0	ABN Amro Fl5	£9¼	-1.3	9.0	4.9	Aug May	1567
1,542.5	ANZ SA1	159	-1.9	11.2	12.6	Feb July	1698
2,796.9	Abbey National 10p	213½	-1.2	3.6	6.8	Apr Oct	5411
981.7	Allied Irish Ord	151	2.0	5.9	29.5	Dec July	1354
31.8	Anglo Irish	53	1.9	7.9	30.4	Jan July	1355
121.3	Ansbacher (H.) 1p	65	-1.5	5.1	12.3	April	1624
727.6	Bancaire Cie Fr100	£42½	-3.7	3.1	9.5	May Mar	2202
3,790.6	Banco Bilbao Viz	£15⅝	-3.1	5.1	9.12	Dec June	-
505.7	Bank Ireland Ir£1	151	4.1	8.7	29.5	July Dec	1360
134.4	Bank Leumi	£19½		-	-	-	1740
25.0	Bank Leumi (U.K.)	350		5.7	6.8	Mar Sep	1740
789.5	Bank Scotland	104	-4.6	5.8	8.10	Dec Jul	1742
94.0	Do. 9¾pc Irrd Pf	94xd	0.5	13.1	22.10	May Nov	1462
13.4	Bank of Wales	42	7.7	8.9	8.10	Nov Jan	1743
5,524.1	Barclays £1	349	-2.2	7.5	20.8	Oct May	1754
5.90	Benchmark 20p	11		9.1	9.4	May Oct	1802
38.3	Brown Shipley £1	240		6.7	11.6	Jan Aug	1983
79.4	Cater Allen £1	335	1.5	9.8	25.6	Jan Aug	2081
7.72	Chancery	37	-24.5	-	25.6	Jan July	2102
347.1	Commerzbk DM10	£15⅛	-2.0	4.0	27.5	May	1046
20,290.9	Dai Ichi KBk Y50	724	-0.7	0.5	4.7	June	3221
6,090.7	Deutsche Bk DM50	£209½	-1.3	2.2	17.5	May	2345
164.4	Espirito Santo	£15⅛		2.5	2.5	June	5187
270.9	First Nat. Fin 10p	168	-10.6	10.3	9.7	Mar Aug	2571
40.2	FNFC 6.3pc Cv. Pf	83	-10.8	10.1	25.6	July	2570
[illegible]	Fuji Bank Y50	827	-7.1	0.4	4.7	Dec June	1084
109.4	Gerrard & National	281xd	1.4	9.0	22.10	June Dec.	2626
58.3	Guinness Mahon 10p	90	-4.3	3.1	14.5	Jul Feb	5074
361.3	Hambros 20p	213	0.5	7.2	25.6	Jan Sep	2812
139.5	Do. 7.5pc Cv Pf	97	-1.1	10.8	10.9	Apr Oct	4388
2,055.4	HK & Shang. HK$2.50	32	1.6	8.0	14.9	October	-
19.8	Joseph (Leo) £1	378		5.6	6.8	Jan Sept	3060
18.6	King & Shaxson 20p	118	1.7	11.6	14.5	Dec June	3088
359.0	Kleinwort Benson Grp	283	0.7	7.5	20.8	May Oct	5102
5,269.3	Kyowa Bank Y50	386	-1.9	0.8	29.6	Mar Jun Sept	3049
3,174.4	Lloyds £1	256	-7.2	6.9	6.8	Oct May	3171
28.6	Lon. Scot. Bank 10p	48	2.1	6.7	25.6	Mar Aug	4651
1,580.7	Midland £1	190	-2.1	12.6	6.8	May Oct	3380
[illegible]	Mitsubishi Bank Y50	£10⅜		0.3	4.7	June Dec	5290
8,201.1	Mitsubishi Tr & Bk Y50	£5⅛		0.6	-	June Dec	4775
21,234.2	Mitsui Taiyo Kobe Y50	£6⅛	3.0	0.5	-	Sept Mar	-
6,227.8	Mitsui Tst & Bk Y50	520	-2.4	0.7	29.6	Sept Mar June	5388
[illegible]	Nat Aust. Bk. $A1	233	-5.7	8.7	21.12	July Jan	3456
4,115.7	Nat West £1	255		8.7	8.10	Oct May	3463
65.0	Ottoman Bank	£130		8.5	16.5	Mar	-
11.0	Rea Bros. Group	28	-6.7	2.4	10.9	May Oct	3785
1,057.0	Royal Bk. Scotland	140	-8.5	6.9	14.5	Mar Jul	3874
3,994.8	Saitama Bank Y50	393	-4.4	0.7	29.6	Sep Mar Jun	5286
21,907.9	Sanwa Bank Y50	722	5.9	0.5	11.12	June Dec	5108
340.5	Schroders £1	678	4.6	2.5	8.10	Nov May	3939
60.6	Do. £1 N/V	468	5.6	3.6	8.10	May Nov	3941
1,076.3	Sec. Pacific $10	£10½	-2.9	12.3	25.10	Fb My Ag Nv	3985
555.8	Standard Chartd. £1	238	-3.2	19.6	20.8	May Oct	4094
23,178.6	Sumitomo Bank Y50	£7⅛	3.6	0.4	29.6	June	3079
7,291.5	Sumitomo Tr & Bk Y50	£5⅛	2.2	0.6	29.6	June Dec	4918
1,999.0	TSB	133	-3.6	5.8	6.8	Oct Mar	4320
18.7	TSB Bank Ch'nel Is	127	-7.3	5.3	11.6	Feb Aug	4319
10,425.3	Tokai Bank Y50	£5⅛	10.0	0.8	29.6	June	5359
5,266.4	Toyo Tst & Bk Y50	648	1.7	0.5	29.6	Sept Mar Jun	1393
100.5	Union Discount £1	336	-0.2	8.2	23.7	Mar Sept	4353
633.2	Warburg (S.G.)	325	0.3	6.2	11.6	July Dec	4425
46.4	Do. 6pc Cnv Prf	109		7.3	10.9	Mar Sept	4426
1,936.6	Westpac $A1	161	-1.8	14.0	25.12	Jan July	4473

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS – Contd

CHEMICALS, PLASTICS

DRAPERY AND STORES

ELECTRICALS

ELECTRICALS – Contd

ENGINEERING

ENGINEERING – Contd

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.) – Contd

INDUSTRIALS (Miscel.) – Contd

INSURANCES

LEISURE

MOTORS, AIRCRAFT TRADES

Commercial Vehicles

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LONDON SHARE SERVICE

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MOTORS, AIRCRAFT TRADES — Contd

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PROPERTY

PROPERTY — Contd

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TOBACCOS

TRANSPORT

INVESTMENT TRUST

INVESTMENT TRUST — Contd

INVESTMENT TRUST — Contd

Net asset values supplied by County NatWest Wood Mackenzie

FINANCE, LAND, ETC

For York Trust see Babcock Prebon

WATER

OIL AND GAS

OIL AND GAS — Contd

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

MINES — Contd

Tins

Miscellaneous

THIRD MARKET

1.36	Nuran Resources... y	25	....	-	-	-	1185
1.74	Ovoca Gold IR 2p... y	25	-13.8	-	-	-	1470
3.06	Oxford Virology 5p... y	22	....	-	-	-	2712
13.2	Poddington 5p.. ...	77½	....	-	-	-	3117
4.20	Ramsden's (Harry)... y	70	7.7	8.6	9.7	January	2011
4.52	Rentaminster 5p... y	27	....	-	-	Mar Oct	5228
1.12	Sempernova......... y	8	-11.1	-	-	-	1645
3.40	Sleepy Kids 5p...... y	17	....	-	-	-	5068
0.38	Systems Connection. y	2	....	-	-	-	5341
5.38	Tomorrows Leisure 20p y	48	....	2.8	24.9	October	4248
1.29	UPL Group 10p.. ... y	32	10.3	-	22.5	Dec. July	4362
3.30	Video Magic Lels. 1p y	20	-4.8	-	26.1	-	5071
2.40	Vista Ents 5p....... y	2½	....	-	-	-	3994
6.71	Wilton Group 1p... y	1½	-14.3	-	-	-	3628

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.

Unless otherwise indicated, prices are in pence and denominations are 25p. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- ● "Tap Stock"
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♦ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ## Not officially listed.
- ¶ Price at time of suspension
- § Not comparable
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date.
- ¦ No par value

B.Fr. Belgian Francs. Fr. French Francs §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. c Cents. e Redemption yield. f Flat yield. k Kenya. C Canadian. E Minimum tender price.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Craig & Rose £1... y	780	....
Finlay Pkg. 5p.... y	48	....
Holt (Jos) 25p..... y	1385	....

IRISH

Cap. 8½% Ln. 1991	£98¼	0.3
9pc Cap Ln. 1996..	£93½	-0.6
Carrol (P.J.)........	152	....
Helton Hldgs........ y	46	-11.5
IRG.......................	183¼	....
United Drug..........	130	-7.1

TRADITIONAL OPTIONS

3-month call rates

Industrials

Property

Oils

Mines

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £1050 per annum for each security.

FT Share Service

The following changes have been made to the FT Share Information Service:

Additions: Brunswick NL (Section: Mines-Australians).

Rank Org. 8.25p (Net) Conv. Cum. Red. Prf. (Industrials).

Deletions: Beaverco (Industrials).

DRX Inc. (Mines-Miscellaneous).

Fitch Lovell (Foods).

Forsayth Oil & Gas (Mines-Australians).

Ketson (Paper, Printing, Advertising).

McFinley Red Lake Mines (Mines-Miscellaneous).

Rockfort Group (Property).

4pm prices October 26

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A – A – A –								
37½	9½	AAR	.48	4.4	7	191	11½	11	11	– ⅛
9¼	7⅞	ACM n	1.01	12.		64	8⅛	8	8⅛	
11½	8¾	ACMIn	1.26	13.		923	9⅞	9¼	9⅞	+ ⅛
9¼	6½	ACM M	n1.01	14.		430	7¼	7⅛	7⅛	
12⅛	10	ACMMM	1.50	13.		69	11⅜	11⅜	11⅜	– ⅛
11½	8⅝	ACM Sc	1.25	13.		1033	9¾	9½	9⅝	
9⅞	7⅛	ACMSp	1.01	12.		469	8⅛	8⅛	8⅛	
24⅝	15½	AL Lab	.16	.9	16	10	18⅞	18	18⅞	
5⅛	1	AM Intl				1052	1⅛	1⅛	1⅛	
22¼	4⅞	AM In pf	2	38.		z127	5¼	5	5⅛	+ ⅛
74¼	39⅞	AMR			14	3511	48½	45¼	45⅞	– 1⅛
24⅞	22⅜	ANR pf	2.12	9.1		1	23⅛	23⅛	23⅛	
4⅛	1⅛	ARX			5	220	1⅞	d 1⅝	1⅛	
72⅞	38¼	ASA	3a	7.0		494	43⅛	42⅞	42⅞	– ¼
45⅝	31⅛	AbtLab	s.84	2.0	20	4333	43⅞	42⅞	42⅞	– ¼
14	11¼	Abitibi	g .50			253	11⅞	11¼	11¼	– ¼
11⅞	4⅞	AcmeC	.40	7.4	6	13	5½	5⅛	5⅜	
32⅞	16⅞	Acuson	s		18	588	25⅛	23⅞	24	– 2
16⅞	14⅛	AdaEx	2.08e	14.		141	15⅛	15⅛	15⅛	– ⅛
15⅞	10	Adobe				169	11	10⅞	10⅞	
20⅛	16½	Adob pf	1.84	11.		10	16⅞	16⅞	16⅞	
21⅝	18⅞	Adob pf	2.40	12.		2	20⅛	20⅛	20⅛	+ ⅛
11⅞	3⅝	AMD				1022	4⅛	4	4⅛	
32⅞	16	AMD pf	3	18.		54	16	16	16	– ⅞
9¼	1⅛	Advest	.16	8.0	26	156	2	1⅞	2	+ ⅛
62½	29⅞	AetnLf	2.76	8.9	5	12611	32¼	30	31	+ ¼
13	6⅛	AffPb	.24	3.6		806	6⅞	d 6⅛	6¾	
22½	11⅞	Ahmans	.88	7.3	5	2594	12⅞	12	12	– ⅞
3⅝	1⅞	Aileen			8	11	3⅛	3⅛	3⅛	
61	42⅞	AirPrd	1.44	2.9	12	521	49⅛	48⅞	49	– ⅛
27	13½	AirFrt	s .30	1.9	8	489	16⅛	15⅞	15⅞	– ⅛
24½	11⅛	Airgas			21	38	11⅞	11⅞	11⅞	– ⅛
20⅛	15⅛	Airlease	2.52	16.	8	4	15½	15⅛	15⅛	
10⅛	9	AlaP	dpl.87	9.3		28	9⅞	9⅛	9⅞	
98⅛	90	AlaP pf	9	9.7		220	93	93	93	

[illegible]

Continued on Page 5

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NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
92½	29⅝	Xerox	3		10.	64186	30⅛	d29⅛	29⅞	−1⅝
32⅞	13⅝	XTRA	.72		4.9	447	14⅛	14½	14⅝	
25	13⅛	XTRA pf1.94			15.	310	13⅞	13⅛	13⅛	−⅛
4	⅞	Zapata				385	15-16	⅞	⅞	−1-16
9½	3⅛	Zemex				36	3⅛	d 3⅛	3⅛	−⅛
14	4	Zenith				1810	5⅞	5⅞	5⅞	−⅞
19⅝	10⅛	ZenNtl	.88		8.7	2	10⅛	10⅛	10⅛	
8⅞	4⅛	Zenix	.88		20.	35	4⅞	4½	4½	+⅛
17⅛	9⅞	Zero	.40	3.5	11	65	10½	10⅛	10⅛	+⅛
61⅛	29⅛	Zurnin	.88	2.6	15	82	34	33½	33½	−½
19⅝	10⅛	Zweig	1.18e		11.	454	10⅛	10⅛	10⅛	−⅛
10	7⅞	ZweigTl	.84		9.9	549	8⅞	8½	8½	

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4pm prices October 26

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
PhlLD	.14e		4 524	8½	8	8½	+⅛
Pitway	n.80e	13	4	29⅞	29⅛	29⅞	
Pitsry A	1.10	1	12	20½	20⅛	20⅛	+⅛
PlyGem	.12	9	53	5	4⅞	4⅞	
Presd A	.10		900	6⅛	6⅛	6⅛	+⅛

NASDAQ NATIONAL MARKET

4pm prices October 26

MONDAY INTERVIEW

The man who would yet be king

Lech Walesa, chairman of Solidarity, speaks to **Christopher Bobinski**

'I shall go against the popular trend if need be'

When he looks back over the past 10 years Mr Lech Walesa likes to say that he rarely put a foot wrong – a confidence born during his time of struggle. Then, as head of Solidarity, eastern Europe's first free trade union, or during martial law, he embodied *Poland's wish to be rid of its* communist masters. But now he faces quite a different test on November 25, in his first electoral battle for Poland's presidency.

Now a portly 47-year-old, Mr *Walesa is the very image of the* experienced trade union boss he never really was, given that Solidarity's political functions were always more important than its shop floor concerns. In his office on the second floor of *Solidarity's headquarters in* Gdansk, a few yards away from the Lenin shipyard where the union's story began in 1980, Mr Walesa is relaxed.

But downstairs in his campaign headquarters, where the communications equipment has been freshly installed, there has been just a little concern about reports that the collection of the 100,000 signatures he needed to be nominated was going more slowly than expected. Now that 500,000 signatures have been *amassed, the mood is more* relaxed, but it still does not match the enthusiasm that accompanied last year's elections, when Solidarity had little trouble getting nominated, then elected.

Though activists in the camp of Mr Walesa's rival, Mr Tadeusz Mazowiecki, the prime minister and once his friend, have collected fewer signatures, people are growing tired of Solidarity. They are wary of a movement that once promised so much but now appears *to be drifting in the face of the* challenges thrown up by mounting unemployment and high inflation.

A few days ago, Mr Walesa was convinced that he would be facing only Mr Mazowiecki and that 80 per cent of the vote was in the bag. Now he is worried that other, lesser candidates, such as the personable Mr Wlodzimierz Cimoszewicz, backed by the Social Democratic party (SDRP), once the Polish Communist party, or Mr Roman Bartoszcze from the biggest farmers' party, the PSL, will take votes away from the front-runners and force a second ballot. This could happen under a rule book which requires the winner of the first ballot to have 50 per cent of the *vote. If the winner has less* than 50 per cent, then the election goes to a second ballot where whoever has a simple majority is elected.

Mr Walesa wants to get a large majority to enable him to steer the country single-handed in the tough times that lie ahead. "*Democratically, of course,*" he adds almost mechanically, well aware of suspicion that his victory would herald a more authoritarian rule. But he says: "We will have strength in *diversity but also strength* which creates unity."

A second ballot which would create the necessity of doing deals with the lesser candidates to gain their support would dash his strategy. Mr *Walesa believes he is the only* man in the country, save perhaps for Mr Jacek Kuron, a former dissident and now the labour minister, who has the common touch which allows him to communicate with the *people.*

Once he became president, social and political problems would be resolved by travelling around the country and explaining what he wants directly to the people. "That would be my role as number one." What happens though when his arguments lose their persuasiveness? "They won't, I'll have new ones." Would he use force? "Never, I'd rather surrender."

Mr Walesa criticises the government for failing to make *people understand its policies.* "They haven't been able to translate the great work they've done into everyday language. The nation can be persuaded to put up with unpopular things if it's treated *seriously. That's* what I'm going to do. I shall go against the popular trend if need be, saying: 'Stop, let's talk.'"

Mr Walesa accuses Mr Mazowiecki, with some justice, of being a politician who is happier in the role of eminence grise and ill at ease with *crowds. "He can deliver a brill*iant speech in a basement to four mice and they won't even applaud because they didn't understand." Now Mr Walesa judges that his greatest mistake was that he did not challenge *the present coalition gov*ernment earlier this year when it became clear that the ancien regime was collapsing throughout eastern Europe.

In August 1989 when Mr Walesa put forward Mr Mazowiecki as head of eastern Europe's first non-communist-dominated government, compromises still had to be made with the then ruling establishment; leading communists stayed in key posts. The communists have now been forced to the sidelines and the political *formula,* according to Mr Walesa, had already outlived its usefulness nine months ago. But the economic policies were right, he says, referring to the government's *IMF*-approved austerity programme which has slowed inflation but pro*duced a fall in industrial out*put of more than 25 per cent.

Mr Walesa, who is sensitive about criticism that he is a populist, says he wants to build on the achievements of Mr Leszek Balcerowicz, the *deputy premier and finance* minister responsible for this economic policy. Indeed, Mr Balcerowicz could well be asked to head the interim government between the November 25 presidential election and parliamentary elections next year. "Our direction would be Balcerowicz but with more market," Mr Walesa says in his typical shorthand manner, which at times belies his claim to be a natural communicator.

Now, however, in spite of the austerity package, money has to be pumped into the economy to hasten the growth of small private businesses. "The government has a $3bn surplus," Mr Walesa says, referring to this year's trade results. "Can you imagine how many bakeries, garages, butchers you can set up with that."

The vision is that of a rapid growth of the private sector providing jobs to refugees from the moribund industrial giants. "We want family businesses with dad the managing director, mum the trade unionist and the son the proletariat" is a favoured Walesa quip at *mass rallies.*

Privatisation, too, has to be speeded up and the share of state-owned plant Mr Walesa says he wants to give away to people varies from 40 to 60 per cent. Mr Walesa freely admits he doesn't know how to do it *yet although the process has to* be "both creative and moral". Details are left to trusted aides like Mr Jacek Merkel, once a design engineer at the Gdansk shipyard and a possible future minister who sits in on conver*sations in Walesa's office. Mr* Merkel, who is heading Walesa's election campaign, emphasises that shares in state-owned companies could indeed be distributed free but on condition they would be managed by investment trusts.

The country's $42bn debt is a problem which exercises Mr Walesa, who is convinced that the economy will not move unless a "50-year moratorium" on interest and capital payments can be wrested from Poland's western creditors. He *even suspects that "many peo*ple and countries want to keep Poland stumbling along" and that this explains unwillingness to forgive the debt which, after all, was "lent to the communists". The beginnings of an economic recovery in Poland are essential, he says, if the country is to stand a chance of being accepted into a united Europe in the future.

As for foreign policy, Mr Walesa sees that Germany will be "busy with itself" for several years. He does, however, have *reservations about what* is happening in the Soviet Union. "It's falling apart, republics are emerging. No one likes to lose, let alone empires," he adds, warning that an attempt to retain unity could be *made* by the Kremlin by "conjuring up an external threat . . . That's one of the reasons I'm now fighting for more unity here," he says, returning to the theme of his presidency.

Flanked in his office by a *small statue of Joseph Pilsud*ski, a national leader who ran Poland with an autocratic style that included limiting parliament's prerogatives from 1926 until his death in 1935, Mr Walesa does not deny he wants to play a dominant role as president. He sees himself as a guardian of the national interest who will oversee the government and step in when he judges the need arises, using "peaceful arguments not force", he stresses. "The better the economic and political situation the less you will see of *Walesa. If it's worse you'll see* more of him", he says.

His tactics until now have been to split the Solidarity movement into rival factions, thus giving him the freedom to pick allies at will. This bolsters *his own political position but it* poses a threat for democracy in the future should he emerge as the sole leader with any authority. But for the moment he is encouraging an element of pluralism.

Ironically this strategy of encouraging the growth of small parties and splits in his own camp has saved Poland from being run by a united Solidarity for decades to come. His rivals now in the Mazowiecki camp had originally aimed to build one big political *movement based on Solidarity* which threatened to give him merely a ceremonial role. Mr Walesa accuses politicians such as Mr Bronislaw Geremek, his former adviser, of seeking to close the movement to fresh blood. "I'm the one who brought in new faces, I'm the one who pressed for elections. And they say they are democrats," he says.

PERSONAL FILE

- **1943** Born in Popowo, near Torun, Poland.
- **1961** Graduated from vocational school, Lipno.
- **1965-67** *Military service.*
- **1967-76, 1980-** Electrician, *Lenin shipyard, Gdansk.*
- **1970** Member, Lenin shipyard strike committee.
- **1980** Chairman, Gdansk Inter-factory strike committee.
- **1980-81** Chairman, Solidarity.
- **1982** Interned.
- **1983** *Nobel Peace Prize.*
- **1990** Chairman, Solidarity (second term).

Real enigma of the US budget panic

By Anthony Harris in Washington

Seldom, surely, has so little been gained at so much political cost. The 1991 US budget is passed at last, and will ensure that while the actual 1991 deficit *will set* a new record, it will not be quite so big a record as it would otherwise have been. As a result of this effort consumer confidence has collapsed – the 21-point drop in the index this month is the biggest fall on record: Mr Bush's own *approval rating* has dropped to 48 per cent; and the Republicans are going into the elections in 10 days as underdogs.

For what? The US national debt, which *has tripled* since Mr Reagan took office 10 years ago, will go on growing over the next five years: but whereas it would have reached $4 trillion from its present $3 trillion-odd, it will now per*haps grow to something* over $3.5 trillion instead – and those figures are heroically optimistic. Even as the budget was passed, Mr William Seidman was on Capitol Hill demanding a further $22bn to *keep the thrift industry* clean-up in business. Had he got his money, nearly half of the projected "saving" would have vanished in the first month of the financial year.

At best, these are quantitative changes; but they are hardly qualitative. If public debt is an abyss, as it has proved in some Latin American countries, the US is heading towards the abyss a little slower; but the turmoil of the last three months suggests that it is harder than ever to stop *the slide in earnest. If debt is* manageable but a bit of an encumbrance, as European history suggests, managing the US in future will be just a little less difficult; but that is all.

Now if the new budget was *half a loaf* and the president had asked for a much bigger cut, one could write down the whole episode as an heroic failure; but, in fact, he has achieved, in cash terms, almost exactly what he asked for. It can be argued in Mr Bush's defence that he also asked for *some important reforms of the* budget-making process which would have made a major qualitative difference; but these were basically the same changes which the charismatic Mr Reagan had demanded daily throughout his presidency. Mr Bush cannot seriously have believed that he would do much better.

So one is left with the puzzle: why did the White House *suddenly panic about the deficit* last summer? And if it did panic, why did it not demand a more effective attack on it? The tentative answers suggest a lot about the nature of the Bush administration.

The original despair, according to well-informed reports, was almost entirely financial. Mr Bush, to his credit, decided very early in his term of office that the thrift disaster must be uncovered and cauterised; but he has subsequently been dumbfounded by the sheer *scale of it. In the summer,* the White House – or more accurately the well-connected Treasury secretary, Mr Nicholas Brady – began to fear that there might be an equal – or still bigger – disaster brewing *in the banking industry.* (This judgment has now been endorsed on Wall Street, where bank equity now trades at yields that look like Third World bonds). A cut in interest rates offered the only potential escape; but Mr Alan Greenspan at the Fed responded with his *familiar* theme-song: the market would never stomach a cut in rates unless the deficit was tackled. What followed makes sense if it was simply meant to impress the markets: a bold display of *political sacrifice* (that of the no-tax pledge) and bipartisan leadership, even if it did not actually solve the problem.

This is just what you might expect from a patrician White House, whose main contacts with American reality are through Wall Street, where the banking is centred, and Texas, which suffered bank failure and recession in the Reagan years. It *is* an old-fashioned Wall Street remedy for a Texas problem. But there were two grave faults with this prescription, which prove the old saying about where good intentions are liable to lead.

The first is economic: the old conventional wisdom of the Street simply does not apply in today's global market, and the budget will make almost no difference to world credit demand, and so to interest rates. This misjudgment sadly confirms the low esteem in which Mr Brady and Mr Greenspan are held among Wall Street professionals, and shows up a weakness in the White House: Mr Bush has no serious source of outside economic advice.

*The second is a lack of seri*ousness in Mr Bush himself. He swallowed the camel of raising taxes; but, as the public has come to suspect, this is because he never seriously meant the pledge in the first place. He strained, though, at the gnat of a capital gains tax cut, which he had made into a totem of right-wing manhood, for no good economic reason. The moderate Mr Bush is always at his silliest and most obstinate when is trying to look like a right-winger.

His capital gains obsession soured the budget negotiations, enabled the Democrats to paint the president as a friend of the rich; and as this cost became clear, led the president into dithering and tittering. His ill-judged joke, "Read my hips", when the TV cameras caught him jogging, has done huge damage to his prestige.

So the real lesson of the whole affair is not economic, or even party-political, but goes back to Oscar Wilde: the importance of being earnest.

Rethink on immigration curbs

IAN DAVIDSON
on Europe

ACCORDING to popular sentiment, there are too many immigrants in France, and no doubt the same goes for most other European countries. Yet for reasons of economics and security, France and its neighbours will all, in the medium term, have to *think* about a deliberate policy of controlled immigration.

This will be a very unpopular proposition. It makes no difference to say that France, like the US, has always been a country of immigration, or that the proportion of immigrants *in France now is no greater* than it was in the 1930s or at the end of the last century. It makes no difference to say that the large flows of primary immigration were stopped more than 15 years ago, and that present admissions are mainly family reunions.

The fact is that 68 per cent of Frenchmen think there are too many immigrants now, according to a recent poll, and even President François Mitterrand has imprudently conceded the existence of what he called a "threshold of tolerance". Mr Jean-Marie Le Pen, leader of *the extreme right-wing* National Front, maintains a buoyant score of about 15 per cent in the polls with his xenophobic rhetoric, and every so often the tension surrounding the immigrant community sets off a *local* explosion.

For all these reasons, elected *politicians* will be *anxious* not to suggest that France needs an immigration policy. But there are at least three factors which may force the idea onto the national agenda. The first factor is demography; the second is eastern Europe and the Soviet Union; and the third is the Mediterranean and the *Middle East. In combination* they may well be irresistible.

The essential demographic fact is that all industrialised countries, with the single exception of Turkey, have fertility rates which are below the replacement level, according to a recent study by OECD. The shortfall is more modest in the case of France than in that of most of its European neighbours, and is sustained by the high birth rate among the immigrant population. But the bottom line is that the French population is not replacing itself, it will get older, and in time it will decline.

The decline in the workforce will drag *down* the prospects for economic growth. At the same time the working population will have to bear the growing cost of pensions and medical care for an increasing number of old people. As it is, France is already teetering permanently on the edge of a crisis over the financing of its old-age pensions, and has so far been *saved by the buoyancy of* growth and social security contributions. The demographic curve will remove such providential solutions.

Compared with its European neighbours, however, France's fertility is relatively buoyant. In Belgium and Austria the population will start to decline this year, and in Spain from the end of the decade. Way out in front is the former West Germany, whose population is expected to shrink by 23 per cent over the next 40 years, from 61m now to 47m in 2030. Italy's most recent fertility figure was even below that of Germany.

From the east and the south, meanwhile, *there will be a* large and rising demand for access to the prosperous countries of western Europe. If economic reforms succeed in eastern Europe, it will only be with heavy transitional costs in unemployment. In the Soviet Union these transitional costs *will almost* certainly be accompanied by political dislocations within and between *republics.* These disruptions will intensify immigration pressures, and the iron curtain is no longer there to contain them.

The populations in the north African countries are rising fast (in spite of *falling* fertility in the Maghreb), and so are their *rates of unemployment.* France has long been the traditional target of would-be emigrants, but as France has closed the door, the pressure has been building up on Spain, Italy and other European countries.

One tell-tale of this pressure *is the steep increase in applica*tions for asylum. In 1983, says the OECD, applications to 14 European countries totalled 75,000; in 1986 the figure was *201,000; in 1989, for* only nine countries, it was 288,000. The increase has been steepest in the three traditionally liberal Nordic countries.

Nobody believes these migration pressures can be con*tained by strict frontier* controls, or that this is a police problem. European countries do not want to become police states; the open borders of the Single Market of 1993 will complicate the policing task; and all European countries depend on earnings from tourism.

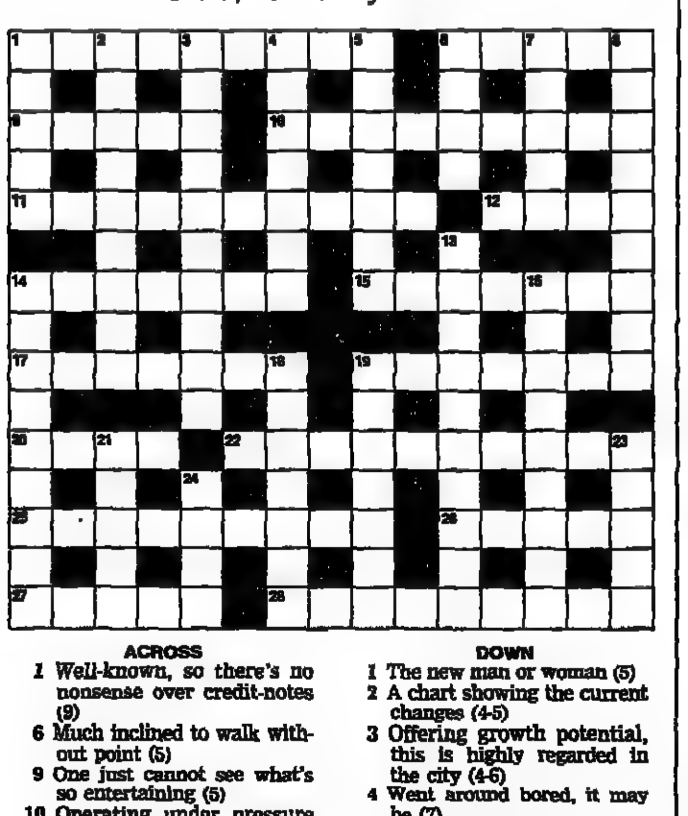
*But in any case, Europe can*not close its eyes to the consequences of depressed fertility and the prospect of declining population. Sweden has recently been bucking the trend, with a fertility rate which rose sharply between 1983 and 1989, though still below the replacement level. But the general European trend is stable or downward.

The key words there are general *and European.* In the absence of a miracle, Europe will need an immigration policy. No single European country can have such a policy on its own, because the internal and external pressures would just be too great. What will be needed is a co-ordinated and controlled European immigration policy; this is yet another reason why we need the European Community.

JOTTER PAD

CROSSWORD

No.7,379 Set by VIXEN



ACROSS

1 Well-known, so there's no nonsense over credit-notes (9)
6 Much inclined to walk without point (5)
9 One just cannot see what's so entertaining (5)
10 Operating under pressure indicates impending changes (9)
11 It takes a lot perhaps to persuade a woman fully (10)
12 Transport for the young page to drive (4)
14 Did some work on a car – crimson outside, jade inside (7)
15 Earnest constituents will get as close as possible (7)
17 Some joints could well require such security devices (7)
19 A painter's underwear (7)
20 Decide against taking part – fancy! (4)
22 Managed to study, and afterwards went fishing (10)
25 A complaint involving colour (9)
26 Pay tribute out of fortune when retired (5)
27 Earthenware figure left for repair (5)
28 Upsets superior and goes (9)

DOWN

1 The new man or woman (5)
2 A chart showing the current changes (4-5)
3 Offering growth potential, this is highly regarded in the city (4-6)
4 Went around bored, it may be (7)
5 Swelling number backing up a medical specialist (7)
6 For drainage all over a little cash is needed (4)
7 Some wines (terrible ones!) contain such a compound (5)
8 Circumference of a Middle Eastern spirit measure (9)
13 Masculine beast, not heartless but vindictive (10)
14 Withdrew, having discerned corruption (9)
16 Steps a person can take to make getting up effortless (9)
18 A heavenly sign – with a sting in the tail! (7)
19 Deliver plant without charge (3,4)
21 Artist's equipment found in oriental jumble-sale (5)
23 Carries out about fifty parcels (5)
24 Handled certain material (4)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday November 10.

هكذا صنع التكامل

FINANCIAL TIMES SURVEY

GERMANY

Chancellor Kohl explains his country's changing role in Europe, Page 2

Debate over monetary union is centred on the Bundesbank, Page 12

Monday October 29 1990

Germany has regained national unity after 12 months of unprecedented change. But the new state faces some severe tests; while helping to shape tomorrow's Europe, the German people must also learn to grow together as a nation. **David Marsh** investigates

United and yet disjointed

It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of light, it was the season of darkness, it was the spring of hope, it was the winter of despair.

ANOTHER time, another place, another context – and yet Charles Dickens' epic words from his 1859 novel A Tale of Two Cities, provide an apt description of today's mood in Germany, united and at the same time disjointed.

After a far longer period than most people predicted in the early 1950s, but much quicker than nearly anyone could have foreseen only a year ago, the nation rent apart in the aftermath of Hitler's war has come together again. The Germans, and their neighbours, are still getting over the shock.

Unification is a triumph for West Germany. The ending of the Cold War has brought unexpected success for Chancellor Helmut Kohl. His dogged march towards the Fatherland turned into a stampede once the Soviet Union, by refusing to intervene militarily in east Germany last autumn, switched off East Berlin's life-support machine and left the patient to collapse. Everyone was taken by surprise, Mr Kohl included. He said two years ago in Moscow that he did not think he would live to see reunification.

The revolution east of the Elbe was virtually bloodless. Having ceased to believe in their own future, the grandfatherly despots led by Mr Erich Honecker shuffled obediently off stage. Unity with the stable and prosperous West rapidly became the only alternative.

The preamble of the Federal Republic's 1949 constitution states: "The entire German people is called upon to achieve in free self-determination the unity and freedom of Germany." Now they have achieved it. Germany has changed, and with it Europe. But there has been more worry than rejoicing.

Euphoria after the breaching of the Wall last November lasted only a few weeks in the West, a few months in the East. There has been no paean of nationalism.

Unity Day on October 3 was celebrated around the country to the strains of the German national anthem: "Unity and Right and Freedom for the German Fatherland." But most people in the crowds gathered at midnight on October 2 in front of city halls did not even know the words, let alone sing them. The festive fireworks lit up the night skies with a cascade of mixed emotions.

The eastwards sweep of market economics has brought pain as well as relief. Unity has generated an economic upturn in west Germany, but is likely to have cut output in east Germany by 10 to 20 per cent this year in an inevitable process of creative destruction.

Though division is over, there are still two Germanys. The 16 *Länder* (states) of the new Germany will be more noticeably split along lines of income, attitudes, and experience than the relatively homogenous 11 states of the old Federal Republic. Compared with the former Federal Republic, the enlarged Germany will be economically stronger over the longer term. Shorter term, however, it will be poorer – and more vulnerable to any world economic downturn ensuing from recession in the US and the Gulf crisis.

Bonn government leaders did not foresee the extent of economic dislocation in the east caused by the introduction of the D-Mark on July 1. Neither did they anticipate the size of west German public sector flows needed to top up east German incomes, renew infrastructure, clean up the environment and alleviate social hardship.

Bonn officials believe that unemployment east of the Elbe could reach 3m next year before starting to descend. The counterpart has been an explosion of overall German public sector borrowing, totalling about DM100bn this year, DM120bn or more next year. Trying to make up in vigour for what he lacks in plausibility, Mr Theo Waigel, finance minister, has said that unity can be financed without tax increases next year.

Lifting the veil from 45 years of post-war totalitarianism has freed the energy of 16m east Germans. In a few years' time they will almost certainly be living in one of Europe's fastest growing regions.

Yet the transition is forcing the inhabitants of the former communist state to come to terms with an uncomfortable past, in which all too many participated in, or profited from, the oppression and the misrule.

In domestic politics, Mr Kohl has reaped impressive benefits. His Christian Democratic Union (CDU) is clear favourite to win the December 2 general election. In state elections two weeks ago, the CDU won in four of the five recreated east German Länder. At a time when east Germans are more worried about being starved of capitalism than of being exploited by it, the Right profits from the belief that it is the party of money.

Mr Kohl has been in no mood to enjoy the fruits of victory. Mr Wolfgang Schäuble, interior minister, a close ally and confidant, and probably the most able man in the Bonn cabinet, was gravely injured by a deranged gunman on October 12. Germany is efficient in organising its gross national product, but not in protecting its most valuable public figures.

On the foreign policy front, there are also disturbing tones. The speedy conclusion of the "2 plus 4" talks between the two German states and the four Second World War victors was an important diplomatic accomplishment.

But now that President Gorbachev has agreed that a united Germany can remain in Nato, Germany has to make up its mind with the rest of the alliance on what sort of Nato it wishes to see in coming years.

The much-vaunted ending of the post-war era could bring down the post-war institutions. The obligations of collective security at the heart of Nato – and maybe the organisation itself – are unlikely to survive for too many years after reunification. Once the Soviet troops complete their pull-out from east Germany by end-1994, pressures will accelerate for the Nato forces in west Germany to leave.

Similar trials are in store over European political and economic integration. Mr Kohl, intentionally or not, sold Mr Mitterrand a pass in April when the two leaders agreed in a communique worked out in secret between the Chancellor's Office and the Elysee: "Our objective is that these fundamental reforms – economic and monetary union as well as political union – should come into force on January 1 1993, after ratification by national parliaments."

Mr Kohl did not consult the Bundesbank about this highly ambitious monetary union commitment. Since then, the central bank has been mounting a muscular campaign to make sure that its scepticism is heard by all.

Thus the language of the latest Kohl-Mitterrand communique, after their meeting in Munich last month, was watered down. The two leaders declared only to aim for *ratification* of new treaties on political and monetary union by end-1992, but said nothing about when monetary union could enter into force.

Patching up misunderstandings with Paris is only one of Mr Kohl's challenges. He has to convince Moscow that a unified Germany really will be in the Soviet Union's best interest – and hope that Mr Gorbachev will be in power in a few years' time to reap the benefits.

By clinching unity, Mr Kohl has brought off an audacious feat, and perhaps prepared Germany and Europe for a new age of shared prosperity. However, over the next few years, he has to wade through a sea of problems. The Chancellor has to juggle East and West, costs and gains, short-term risk and long-term opportunity. His balancing act is not yet over.

The flags of the Länder flutter outside the Reichstag

Ashley Ashwood

IN THIS SURVEY

Editorial Production: Phillip Halliday, Heather Parker

Chancellor Helmut Kohl reviews the post-war architecture of Europe and Germany's role in the pursuit of European integration

Voice of harmony that stills national rivalry

DURING 1989 and 1990 we have all witnessed rapid political, economic and social change in *central and eastern* Europe. The post-war architecture of Europe seemed stable – but this change revealed how fragile it really was. A stable peace order cannot be built on the basis of the irreversible antagonism between democracy and dictatorship.

The *question of the architecture* of tomorrow's Europe now demands an answer. It is directed not least at the Germans, at the heart of what was until recently a divided continent. With the ending of division, the Germans have regained full sovereignty. However, in an age of increasing political and economic inter-dependence, national sovereignty is not an object of value in itself, but is a tool to *be wielded responsibly*, in a spirit of partnership. This implies, among other things, a willingness to share sovereignty by progressing towards European integration.

The Germans have achieved unity in full accord with their friends, partners and neighbours in East and West. And they are aware that the main factor permitting the people in the west of Germany, particularly in West Berlin, to live in peace and freedom for over 40 years was the solidarity of the Three Powers – the US, France and Britain. These two experiences underpin the Germans' positive attitude towards European integration and towards further developing the Atlantic partnership.

Integration and co-operation are the important concepts for shaping tomorrow's Europe. At the same time, they signal the definitive rejection of the 19th century order in Europe, which proved incapable of ensuring durable stability. Where power is exercised by common institutions, there is no longer any room for the national rivalries and quest for dominance of bygone ages.

The struggle to achieve a balance of power has been *superseded by the search for a* sensible balance between the authority of a supranational community and the rights of its members. In this sense the future belongs to federalism, and the sharing of central and regional power, as a model for the Europe of the Twelve – and beyond.

Re-establishment of German unity on October 3 did not bring the birth of a new state. Rather, five new federal Länder and the eastern part of Berlin acceded to the Federal Republic of Germany. The continuity of the basic policies which for four decades determined the path of the Federal Republic – and ultimately created an environment making reunification possible – is thus assured: at home, commitment to democracy based on the rule of law and the social market economy, externally, further integration into the community of free western states.

The vast majority of people

German unity on October 3 did not bring the birth of a new state

in the *former* German Democratic Republic (GDR) wanted this continuity. Ample proof came in the Volkskammer elections on March 18. We fulfilled this fervent wish with the treaty establishing monetary, economic and social *union and with the Unification* Treaty. We have thus laid the foundations for economic upturn and prosperity in the whole of Germany, as well as for the continuation of our role in the European Community and the Atlantic Alliance.

In the wake of October 3, east Germans' confidence in their economic future has grown considerably. Not the least indication of this is the large number of new companies set up this year. Banks, commercial enterprises and *the service sector are building* up extensive branch networks, creating thousands of jobs.

The vast majority of people fully realise what a dreadful state the economy of the former GDR was in, and the extent to which its infrastructure, building and environment were neglected for decades. But economic regeneration is under way. In spite of high interest rates, there is no sign of investment activity slowing down. This is true both of private investors and public capital spending. Roughly half of companies sampled in a recent survey by one of Germany's best-known economic research institutes said they intended to invest in east Germany by the end of 1991.

Experience so far of German monetary and economic union has shown that the people in the former GDR have used their D-Marks responsibly. They are taking advantage of the new savings and investment possibilities. Even with lower prices, a wider choice of *better quality goods*, and increased purchasing power for employees and pensioners, the "shopping spree" forecast by many did not materialise. This offers opportunities for all – not just German businessmen.

It is not too early to say that the process of German unification has given European integration a significant lift. Reunification of our Fatherland gives us an incentive and an obligation to reinforce what we have built up with our allies and partners over 40 years. We consider as one of our foremost future tasks the fulfilment of the mandate in the preamble of our Basic Law: to play an active role to build a united Europe. This *mandate* has always been placed on a par with our obligation to achieve in free self-determination the unity and freedom of our country.

The *EC* is the core of, and the foundation for, the unification of Europe. In line with the vision of its founding fathers, we wish to develop the Community into European Union. The single European market, to be completed by December 31 1992, is only an intermediate stage – albeit a very important one – on this route.

On the basis of the initiative I put forward with President Mitterrand on April 18, 1990, two intergovernmental conferences on economic and monetary union, as well as political *union*, will open in Rome in mid-December. Our aim is to conclude these conferences in good time so that their results can be ratified by EC member states by December 31 1992.

Only if these reforms reach a successful conclusion will the European Community be able to meet the challenges facing it internally and externally. Only then will it be able to shoulder its share of political and economic responsibility for the whole of Europe *and towards its partners in the* world.

Our aims in the process are as follows:

- We want to increase the powers of the European Parliament in time for the next European election in 1994. Our democratic principles will allow the transfer to the Community of further rights of national parliaments and governments only if, as a counterweight, distinct parliamentary *controls are guaranteed at a* European level.
- We wish steadily to increase the efficiency of the Community's institutions. Our model is a "citizens' Europe". We reject all forms of bureaucratic centralism. In tomorrow's Europe, nations and regions must be able to preserve and cultivate their own traditions. We therefore call for the creation of an advisory committee on which the individual regions are represented.
- We seek tangible progress on a common foreign and security policy. We require an effective range of instruments to advance our common interests in the world.
- We must resolutely pursue European economic and monetary union. To this end, we need a solid economic and financial foundation, for which the Delors committee gave important guidance.

Monetary stability, healthy *public finances and* an independent future European central banking system are of crucial importance.

Only a European community strengthened internally can be a driving force in the pan-European process. Europe does not end at the Oder and Neisse rivers. The people in Poland,

There will be no cracks in the united Germany's foreign policy

Czechoslovakia, Hungary and the other countries of central and south-east Europe require a European perspective. The same applies to the Efta countries, with which we enjoy close co-operation. We wish to create with them a European economic area, which could become a model for the whole of Europe to grow together.

It must not, however, simply be a matter of admitting as many countries as possible into the EC. Such a strong-arm act would not leave the Community unscathed. The fatal result would be that the EC would be reduced to the level of an elevated free trade zone. Precisely what was not – and is not – our aim in unifying Europe. Hence those who want the *political* unification of Europe must restrict accession to the Community, for the foreseeable *future*, to those countries which are prepared and able to create the European Union without reservations.

This does not alter the Community's need to be more energetic in supporting the successful continuation of reforms in *central and eastern* Europe, and in raising co-operation with these countries, and with Efta, on to a new plane. The envisaged co-operation and association agreement are essential tools towards this aim.

Our goal of unifying Europe requires an *overall umbrella* of structures for political and economic co-operation, and for security matters. The process of security and co-operation in Europe, the CSCE, *has been of* inestimable value in overcoming the divisions in our continent. It also provides a forum to press for further progress in disarmament and arms control.

We attach particular importance to further expansion of *the CSCE, not least* in view of the Atlantic partnership between the US and Europe. In coming years it will be imperative not simply to maintain relations between US and a coalescing Europe, but indeed to intensify them. This can be accomplished through further development of the Alliance – whose *raison-d'etre* certainly does not rest on perpetuating conflicting images – and through more co-operation *both at the EC and CSCE* level.

One of our greatest challenges is to involve the Soviet Union ever more closely in the task of shaping Europe's *future – politically, economically*, culturally and in security questions. Decades of East-West conflict have caused many to forget that the peoples in the Soviet Union are linked with Europe not just geographically, but through their history and culture. At last, these links can now be turned to political benefit.

One thing is certain: there will be no cracks in the united Germany's foreign policy. This *is, and will remain, a policy of* peace. Its axioms are understanding and reconciliation. Our standards and priorities will remain unchanged, because they have proved their worth. They will remain the compass guiding us towards a good future.

The Brandenburg Gate (above) in December 1989, after the wall had begun to crumble.
Chancellor Kohl (right): convinced that his country's unity, as symbolised by the flag of Germany outside the Reichstag (below), can help European integration

Sir Julian Bullard looks at the impact of unification on neighbouring states

Time to feed the country's western roots

A SAFE place to hide a striking quotation, one might think, would be in volume two of the Life of Disraeli by Monypenny and Buckle. But Disraeli's words leap off page 473.

"Let me impress upon the attention of the House the character of this war between France and Germany. It is no common war. Like the war between Prussia and Austria, or like the Italian war in which France was engaged some years ago; nor is it like the Crimean War. This war represents the German revolution, a greater political event then the French revolution of last century . . . Not a single principle in the management of our foreign affairs, accepted by all statesmen for guidance up to six months ago, any longer exists . . . The balance of power has been entirely destroyed, and the country which suffers most, and feels the effect of this great change most is England."

As leader of the Opposition, Disraeli was speaking in the Debate on the Address on February 9, 1871. The House had dispersed the previous August as the Franco-Prussian War got under way, and it reassembled six months later, a normal interval in those days, to find it nearly over. Disraeli was lamenting not the victory of Germany or the defeat of France – his speech shows no great sympathy for either side – but the destruction of the balance of power, the central principle of British foreign policy and the unravelling of the nexus of treaties on which Britain had been relying.

Fast-forward now to The Spectator of July 14, 1990, and here is Mr Nicholas Ridley: "We've always played the balance of power in Europe. It has always been Britain's role to keep these various powers balanced, and never has it been more necessary than now, with Germany so uppity."

Who would have thought that the squires of Hughenden and Cirencester had so much in common? But in truth it is the European situation which is repeating itself, not just the Conservative Party. The war now ending in Europe is the Cold War. It had lasted not six months, but close on 45 years. The chief winner is Germany. And the balance of power, for those who still think in such categories, has changed.

What is important is not simply the fact of German unification, but the conditions in which and on which it has been achieved. The actual merging of east into west Germany will be a slow, laborious, untidy and expensive business, as anyone may see who picks their way through the "Treaty on the Establishment of the Unity of Germany" signed on August 31, with its majestic annexes and supplementary statements. The east-west economic differential will take many years to fade, and may never disappear altogether. Germany's frontier has advanced some 180 miles further east, but its centre of gravity has moved only from round about Marburg to somewhere near Weimar, and there is talk of the seat of government perhaps staying in Bonn after all, instead of moving back to Berlin.

The question is not what capital the country will have, but what character. Will the new Germany be more than the old Federal Republic expanded by 43 per cent? If so, in what way will it be different? When this question was put to Mr Lothar de Maiziere, the first and last freely-elected prime minister of east Germany his reply was that it would be "more Protestant, and more eastern." The first of these qualities is the Germans' own business. The role of the Church in the decline and fall of the GDR was remarkable, but I wonder if it was not specific to that particular period.

But "more eastern"? Here we enter the ground covered by those two other recent treaties, the Two-Plus-Four agreement of September 12 and the German-Soviet Treaty initialled by the two foreign ministers a day later. Taken together, these two documents must inevitably involve a shift of position and a change of course on the part of Britain's most important partner and ally in Europe.

Those obsessed with the word "sovereignty" will find that the Two-Plus-Four Treaty restores it in full to Germany, but the small print spells out the special regime to be applied to what was the territory of east Germany: Soviet troops to be withdrawn, but only by the end of 1994, and after that no non-German forces to be stationed there, and no nuclear weapons.

So it is unification on conditions, and two of these are terms which a year or two ago would have been anathema in Bonn, namely a nuclear-free zone in central Europe and the "singularisation" of part of German territory. What makes these things palatable today can only be the general context, and the fact that they were freely accepted by the government concerned – as freely as Austrian neutrality was accepted by Austria in 1955.

In those days we used to speculate about something called "the German card", meaning an offer by Moscow to concede German unification in return for German neutrality. Well, the card was played in the end: the Soviet opening position in the Two-Plus-Four talks was that German membership of Nato would never be acceptable to the Soviet people. But by that time Moscow's partner was on its last legs. So the card proved to be only half a card, and it took only half the trick.

The most vaguely formulated of those three treaties and thus potentially the furthest-reaching, is the bilateral one awaiting ratification in Moscow and Bonn.

This commits the two countries to collaboration in everything from arms control to language studies, not forgetting German help for the Soviet economy. In the event of aggression against one party, the other will not help the aggressor, which amounts to a kind of Non-Aggression Plus. But the stated joint political goal is to convert the CSCE (the Helsinki process) from an occasional gathering into a body with permanent institutions. The German vocation, said Mr Hans-Dietrich Genscher, foreign minister, is to lead together the peoples of Europe.

If this then is the German perspective, where does it leave Germany's western partners?

France still has the Franco-German special relationship, now in its 28th year, and the recent meeting in Munich showed what pressure this is under. But Britain? I fear we may be entering a period when the downside of pragmatism starts to show. We always knew that the UK's special position in Germany was linked to the survival of east Germany, which meant that it was highly precarious. Yet, I am not aware that we systematically, as distinct from instinctively and selectively, sought to build up a structure of mutual influence and dependence to take the strain of the Anglo-German relationship on the day when the Wall would come down and the last British troops would climb into an aircraft at RAF Gatow and fly off to the west, down what was the Central Air Corridor.

The winding down of these rights and responsibilities will take a little time yet, thanks to the Soviet plea for the delay, which gives us the opportunity to ponder what more we might do to strengthen Germany's roots in the west against the suction from the east.

It is hard to imagine that answers could lie anywhere else than in Nato, the Western European Union and the European Community. If the first of these is destined to recede in importance, it could become an urgent task for the second to reinforce the third.

The writer was UK Ambassador to West Germany, 1984-88

David Marsh profiles the man who has become the conscience of the nation

The bridge-building president

PRESIDENT Richard von Weizsäcker, who on October 3 became the head of state of all Germany, enjoys prominence and popularity without real political power. As the nation gears up for the task of unification, the president is serving notice that he will be playing an active role in trying to make it a success.

The president is supposed to be above the rough-and-tumble of daily politics. With the approach of the general election on December 2, he will keep out of the direct spotlight. But, from below stage, his voice will still be heard. The message from the president who has become the conscience of the nation is above all that, at this of all times, he will not keep quiet.

The president's well-practised patrician bearing does not stop him from descending into mischief from time to time. Although he and Chancellor Kohl are both from the Christian Democrats, Mr von Weizsäcker seems to take occasional pleasure from aiming political darts into Mr Kohl's thick hide. Part of Mr von Weizsäcker's theme was spelled out in his masterly Unity Day address in Berlin. The president succeeded, with words of uncomplicated elegance, in charting a course joining up the hopes of the day with the challenges ahead.

A good deal of Mr von Weizsäcker's prowess at the podium reflects timing and delivery. He finished with a line from Schiller's Ode to Joy. (To give the German Democratic Republic a half-dignified exit, the political establishment had attended a performance of Beethoven's Ninth Symphony in the East Berlin Schauspielhaus the previous evening.)

Unity was a "divine spark", said Mr von Weizsäcker devastatingly, and that was the end of the speech. Next day, in the Reichstag, Mr Kohl opened the first session of the united Bundestag by stumbling over a set-piece address put together on the word-processor with doggedness but no great imagination by his speech-writers.

Mr Willy Brandt, replying for the Social Democrats, said that that the president's address had been more convincing. Mr von Weizsäcker, sitting in the visitors' gallery, arched up his eyebrows in theatrical surprise – but must have been pleased all the same. To his audience at home and abroad, Mr von Weizsäcker is trying to ram home several central points:

- He believes that overcoming the psychological gap – as well as the economic gulf – between east and west Germans will be a key task for a long time. As he put it in his Berlin speech, "we cannot deny how much divides us still." The president is wedded to the idea of Germany becoming a "bridge" between the nations of Europe. But, as his visits to east Germany are bound to underline in coming months, he also sees his role as helping to bridge the differences in mentalities, experiences and expectations in the two halves of the nation.
- Using words which (unknown to him) were very similar to those written by ex-Chancellor Helmut Schmidt in a newspaper article published the next day, Mr von Weizsäcker said in his Berlin speech: "Unity will not simply be financed with high-yielding bonds." Eye-witnesses say that Mr Kohl, sitting in the front row, winced slightly. This was a coded way of taking the government to task for not having done enough to restructure budgetary spending to divert funds to east Germany. Mr von Weizsäcker's remark was also a hint – though no more – that the president may back the Opposition line in favour of tax increases to fund unity next year.

The opportunity for big cuts in subsidies does not appear very great. It is significant that the president – a former mayor of west Berlin – does not think much of plans to cut central governing funding for the city now that east and west Berlin are struggling to grow together.

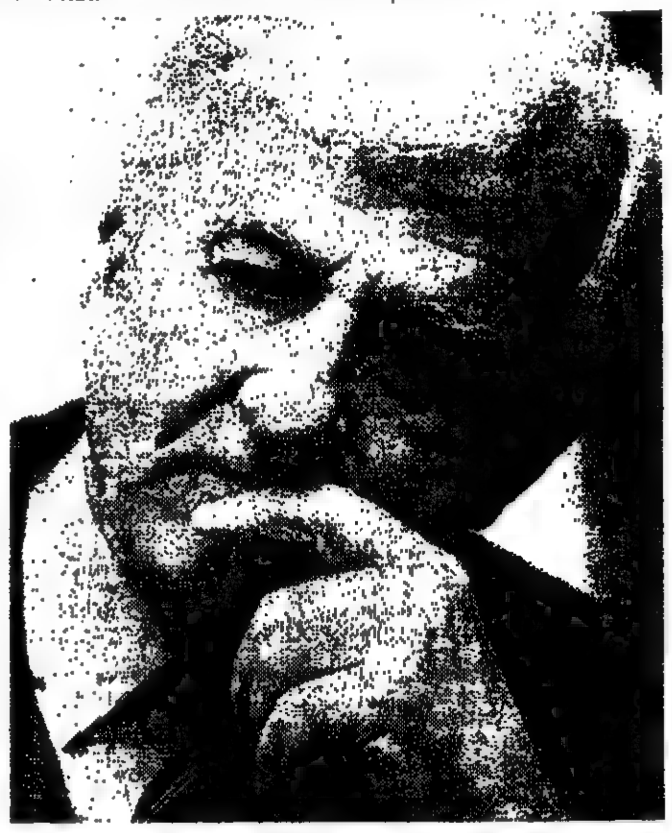
- The president believes Germany has to keep up the momentum in both widening *and* deepening the European Community – a tall order. He wants the government to press on quickly along the road to monetary union, even though this is opposed by a strong coalition including Mr Karl Otto Pöhl, the Bundesbank president, Mr Theo Waigel, the finance minister, and Mr Otto Lambsdorff, leader of the Free Democrats. Mr Pöhl has already been overridden on German monetary union; the president is not the only one wondering if it will happen again.

Mr von Weizsäcker feels that a way will have to be found to steer between the Scylla of Germany's reluctance to give up the stability of the D-Mark-anchored system, and the Charybdis of other countries' unwillingness to accept a monetary system dominated by the Germans. He doubts whether Britain's full membership of the European Monetary System proves that Mrs Margaret Thatcher has become European-minded. Because it will give London the opportunity to block Emu, it could be just the opposite.

- In Mr von Weizsäcker's most celebrated speech to date, in May 1985, marking the 40th anniversary of Germany's capitulation, he said: "Anyone who closes his eyes to the past is blind to the present. Whoever refuses to remember the inhumanity is prone to risks of new infection."

However, the president is now beating out a different tune. Suspicions abroad – above all in England (and here he means particularly 10 Downing Street) – that German unification disrupts the "balance of power" in Europe are based on an over-preoccupation with the past. At this juncture, Mr von Weizsäcker likes to point out that if Lord Castlereagh, Britain's foreign secretary at the Vienna Congress in 1815, had not insisted on giving the Rhineland (including the industrial potential of the Ruhr) to Prussia instead of Saxony, as the Prussians had wanted, then a lot of later problems could have been avoided.

As it is, after four postwar decades, German thought and German government are now firmly "westernised", Mr von Weizsäcker believes. There is no danger of a "third way" or an eastwards drift. That is why, he said in Berlin, Germany's borders must no longer be dividing lines, but "bridges": east and west but mostly, one cannot help thinking, east.



President von Weizsäcker: unity a "divine spark" Ashley Ashwoo.

François Heisbourg analyses how the politicians in Paris have approached Franco-German relations since mid-1989

Lost opportunities and new challenges

THE evolution of French-German relations since mid-1989 is a case study of how better-than-average analysis can be followed by less-than-optional policy. In essence, Paris lost five months in its relationship with a uniting Germany, in a revolutionary period when every month was worth a year of "normal time".

It remains to be seen whether France can make up for the opportunities lost between November 1989 and March 1990, and whether she will be in a position to successfully meet the challenges flowing from the existance of a united Germany.

During the weeks preceding the breaching of the Berlin Wall the analysis generated in Paris on the German question was of quite good quality, and this was reflected in President Mitterrand's press conference of November 3, when he stated that "I do not fear reunification . . . I think it is legitimate for the Germans to desire reunification if they want it".

This understanding of the nature of events compared favourably with what was occuring at the same time in London and Moscow. However, as in another case – that of France's early and accurate understanding of the threat to the Shah's regime in Iran in 1978-79 – appropriate analysis was followed by debatable policy.

At the end of November, France over-reacted to Chancellor Kohl's 10-point speech in the Bundestag. Admittedly, the Chancellor's lack of consultation was regrettable, but France was far from singled out as a victim, as other countries – and indeed West German politicians – can attest.

This was followed by the impromptu Mitterrand-Gorbachev encounter in Kiev in December, suggestive of a precautionary search for a new *"alliance de revers"* which a Soviet Union beset with its own problems was probably not in a position to enter into. A few weeks later Paris was seen as providing a measure of international legitimacy to a moribund East German regime, with the French President's visit to East Germany.

This phase also witnessed France's ardent defence of Poland's position on the border issue. The policy on the issue of Poland's borders was certainly legitimate, but expressed in such a manner that France ran the risk of appearing to be more Polish than the Poles. Finally, the high profile visit to Paris by Mr Oskar Lafontaine, the SPD leader, shortly before the March 18 general election in East Germany was not designed to please the Government in Bonn. The French were suspected of assuming that the SPD would gain a majority, as most opinion polls were then suggesting.

In chronological terms, this essentially reactive phase was quickly followed, after the victory of the Christian Democrats in East Germany, by a swift and welcome shift to a more positive and active policy, exemplified by April's joint statement on European political union of the French president and the West German chancellor.

Although there are still occasional hints of previous policies in French attitudes – for example in June 1990 when Paris yet again bore cudgels for Warsaw – France has not confined herself to simply acknowledging the *fait accompli*, but has sought to translate this new attitude in constructive Community-building terms. Here the parallels between French and British policies towards Germany end, and the contrasts begin. France has its *"politique communautaire"* which provides her with a measure of tangible insurance against the risk of becoming a marginalised and grudging witness to the inevitable.

In spite of its policy of adjustment from March 1990, France may find it difficult to re-establish with Germany the special relationship which existed before November 9, 1989. It is premature to consider that the relationship belongs to the past, as former President Giscard d'Estaing did in an interview in July.

However, France's slow acceptance of the new facts of life has left marks in the way Bonn now views Paris: a capital with which it is still important to have good relations, but which, in contrast to Washington, could not be fully relied upon in time of historic upheaval, and which, for a time, appeared to have little to contribute in the way of positive input.

Overcoming this relative side-tracking and the possibly deep damage resulting from the loss of mutual confidence has become Paris' real challenge. Furthermore, France's shift from unenthusiastic recognition of unification to Franco-German team-playing is incomplete, since France does not appear, as yet, ready to alter her stance in the field of defence.

France's security and defence relationship with West Germany has become one of the principal bonds of the "couple" during the 1980s. Now that the Cold War is essentially over, the weight of defence issues in central Europe is bound to decrease, thus eroding the one of France's stronger points.

Furthermore, what was tolerable to Germany at a time of large Soviet pressure will become increasingly irritating. The decision in Spring 1990 to produce the Hades short-range nuclear ballistic system for deployment in 1992 will increasingly be viewed in Germany at best as an unpleasant irrelevance, at worst, as an unacceptable sign of mistrust, since it will only be able to reach targets in united Germany and Czechoslovakia.

Similarly, Paris' persistent refusal to proceed with consultations on nuclear issues reduces the credibility of statements that French pre-strategic weapon systems are at the service of Europe. France will have to decide whether she will Europeanise her forces and doctrine, within a West European and/or European-American security framework, or whether she will hang on to the reassuring verities inherited from another strategic age.

As times passes, the political and economic value of French overtures in the field of defence and security will tend to diminish. This erosion could be speeded up by a mishandling of French force withdrawals from Germany, an issue which was dealt with in a rather confusing manner during the summer.

It would be in Paris' interest to gain political mileage in the Franco-German relationship by shifting gears in the field of defence sooner rather than later and to do so in an explicit and ambitious manner.

In the new game, France has nonetheless a good hand to play, particularly if defence and security assets are put on the table in a timely fashion.

France has a strong set of policies toward the economic, monetary and political unification of Europe which she can build on. Furthering this process requires political will and imagination, but no soul-wrenching departure from recent trends, except in the field of defence.

Possibly more surprisingly, France is well poised to play the economic card. Low inflation, a manageable trade deficit, high capital investment, healthy companies, and a long-standing energy policy, give France a reasonable chance to benefit from the window of opportunity opened by the German unification process. A united Germany with the equivalent of an ex-communist Mezzogiorno to integrate will not be an instant economic superpower.

Other countries, less distracted by the economic costs and social pain associated with unification, can consolidate their position, thus making for a European Community which should not be intolerably imbalanced by the simple addition of 16m people, some 5 per cent of its inhabitants, to its population. In other words a Community in which France has every chance of remaining *"incontournable"*, with the French-German "couple" as engine.

This will only happen if France does not repeat the performance of the late November 1989 to late March 1990 period.

This will hopefully pass into history as a reversible and understandable moment of hesitation in the aftermath of a strategic earthquake – and not as an event which will set a new trend.

The author is Director, International Institute for Strategic Studies

Ashley Ashwood

Dieter Kastrup: important man in negotiations

David Marsh interviews Dieter Kastrup of the foreign ministry

Genscher's right hand

THE tall, lean figure of Mr Dieter Kastrup, political director at the Bonn foreign ministry, has been an indispensable actor in the wearisome, but ultimately successful saga of winning agreement on German unity from the four Second World War visitors.

Since the "2 plus 4" talks between the former two German states and the US, Soviet Union, Britain and France were conceived in Ottawa in February, Mr Kastrup has travelled around 60,000 miles to help bring the negotiations to a conclusion.

Mr Kastrup, 53, for years one of the closest advisers on East-West matters to Mr Hans-Dietrich Genscher, the foreign minister, has held his present job since November 1988 when his predecessor, Mr Hermann von Richthofen, moved to London to become Germany's ambassador to the UK.

Mr Kastrup is the leading candidate to take over as the foreign ministry's top state secretary if Mr Jürgen Sudhoff, the current incumbent, goes as expected to Paris as ambassador at the beginning of next year.

Mr Kastrup has a modest exterior, but there is steel inside. During the high points of the dramatic diplomacy of the last 12 months, he has seldom strayed far from Mr Genscher's side. Looking back, Mr Kastrup says: "It has been a unique chance. In my life-time I will not experience something like this again."

Mr Kastrup was with Mr Genscher at the West German embassy in Prague in September 1989 when agreement was reached on allowing east Germans camped out in the grounds to travel freely to the west – a decision which marked the beginning of the countdown to unity. He played a leading role in the negotiations with the Soviet Union on winning Moscow's agreement for a united Germany staying in Nato. And he was naturally among the carousers at the Reichstag in Berlin who celebrated German unity well into the early hours of October 3.

With last year's flow of east German refugees into Hungary and then Czechoslovakia, "We had the feeling that something was starting to move, something qualitatively different," says Mr Kastrup. But he admits to being taken by surprise – like everyone else – by the speed of events. "If someone in Prague on September 30 1989 had predicted that on October 3 1990 we would be standing on the steps of the Reichstag in a united Germany, then I would have said he was a dreamer."

Mr Kastrup pays tribute to the "solidarity" shown by Germany's western partners during the "2 plus 4" talks.

He concedes that the US found it initially far easier than France and Britain to face up to the realities of German unification. Britain kept up tough bargaining up to the last meeting of the "2 plus 4" Foreign ministers in Moscow in September, holding out for future rights for British troops to train on east German territory.

Mr Genscher was plainly enraged by the British stance. Now that the dust has settled, however, Mr Kastrup comments on it in supremely diplomatic terms: "It is like in a marriage – why should one always be of the same opinion? Among friends, it is always possible to have differences of opinion."

Mr Kastrup agrees that, without the change of mind by the Soviet Union on the question of Nato membership, German unity would not have been possible. Together with the rest of the alliance – Mr Kastrup points to this summer's nato communiqué in London as a milestone – Germany has had to convince Moscow that Nato is not the "horror picture" which Soviet propaganda has always painted it. Mr Kastrup says Nato is now "extending the hands of friendship" to Moscow.

The German-Soviet treaty on "good neighbourly relations, partnership and co-operation" which will be signed when President Gorbachev visits Bonn next month will be of supreme importance.

Mr Kastrup denies that the mutual non-aggression pledge contained in the treaty contravenes Germany's obligations to Nato. He shows mild vexation at reports in the French press this month – thought to emanate from the Elysee – that the Paris government is concerned about this article. Mr Kastrup goes as far as to fetch a copy of the treaty from a safe in the corner of his office and reads out the relevant passage, from Article 3 which states that Germany and the Soviet Union "will refrain from any threat or use of force which is directed against the territorial integrity or political independence of the other side."

The article adds that, if either side should come under attack, "the other side will not afford any military support or any other assistance to the aggressor."

Some French officials are worried that this article would prevent Germany from joining Nato action against Moscow if the Soviet Union should attack another member of the alliance.

Mr Kastrup says however that this part of the German-Soviet treaty is completely compatible with Nato's present undertakings as a defensive alliance and with the wording of the Nato London communiqué.

"If there had been any doubt [about the compatibility of the words in the treaty], then we would not have done it," Mr Kastrup says firmly. However much diplomats like Mr Kastrup try to scotch the anxieties, the French worries seem unlikely to go completely away.

Thomas Kielinger offers a personal view of unity

Patchwork state must come to terms with the past

PRESENT-DAY Germany consists of 16 states with distinct local identities. This fragmented patchwork is coalescing into a cumbersome, hesitant giant, covered with the scars of the 20th century.

Its peoples have displayed both courage and subservience, perseverance in adversity as well as blind submission. While the western part staged a dramatic recovery after World War Two, the eastern half is only now emerging from 57 years of totalitarian darkness.

Two generations in the east have seen their fulfilment brutally taken away from them. Others earned their living by conniving with officialdom against fellow citizens.

Amid the widespread rejoicing at the demise of communism, one must ask whether any society can fully recover from such corruption and denial of freedom.

The revolution of 1989 testified to the moral strength of a populace whose ability to think for itself had all but disappeared. But in the new dawn came the depressing revelation of the extent of popular collaboration with the secret police.

How will this shame be removed? And must the west Germans, who came to terms with the Hitler past, now help to clean up the east's legacy of the Stasi and its security apparatus?

In fact, they have no alternative. The east German judiciary is ill-equipped to dispose of this legal and moral morass. The problem also knocks insistently at the western door. Hardly a day passes without another former east German spy having his cover blown by informers, often double agents trying to save their own skins.

Like some natural disaster, German unity is caving in so rapidly on these moles that often they have no time to withdraw to the hospitable burrows of the KGB.

In previous years, any of these cases would have provoked outrage and wrecked political careers. Now they just cause an irritated shrug of indifference. Perhaps west Germans hope that the aftermath of the GDR can be dealt with within the east's former boundaries?

West Germans have developed the apathy and middle aged spread of an affluent society. It explains the lax security on Unity Day, October 3, when a deranged person managed to grab the microphone at the concert of the Berlin Philharmonic and harangue the top brass of the two Germanys on their wedding day. He could easily have pulled a Smith & Wesson and assassinated many a dignitary.

Nine days later, the unspeakable happened when a man of a similar mental disposition, in a southern German bar that evinced no traces of a security precaution, walked up to the speaker of the evening and shot him twice at close range. It was no accident that the speaker had been none other than the chief negotiator of the two German unity treaties, Dr Wolfgang Schäuble, a member of Chancellor Kohl's cabinet and the heir-apparent to succeed Kohl.

Security? What security? Germany has cultivated the low-profile image to such an extent as to dull its very appreciation of the few top politicians it still has.

The combination of a cosy life-style acquired over the years juxtaposed with the awareness of the harrowing extent of east Germany's decline will, however, jolt rich, comfortable west Germans into their most painful process of self-appraisal and quiet reassessment of the historical role of their united-to-be country.

The process is under way. Suddenly many people are discovering with a vengeance what is at stake when two distinctly disparate societies collide, as it were, under one national roof, thrown together as they are for better or worse, in sickness and in health, for richer or poorer, till success doth unite them into one family again. Or not.

That is the question. It is anyone's guess how long it will take to stitch together the two unlikely halves – politically, psychologically, economically, humanely. Perhaps the economic part of unification will be the easiest to accomplish, if the most arduous, in the immediate future.

In a sense, Germany provides the international community with the most spectacular case of a modern experiment in social engineering.

A nation she is not, certainly not at this stage. And whether she is ever likely to become one, in the sense of the British or French national ego, remains to be seen. Would it be a good thing if she did?

Some Germans question such epithets of the modern experience.

Why, had not the country chastised itself of all national pretences? And has she not thrived uniquely under the tutelage of total decentralisation and federalization?

Surely, in Europe, Germany has found her fulfilment as she never had found it in herself . . .

Too bad, therefore, that, with Germany reuniting, the people are being asked to return to the class room and repeat a lesson all but forgotten – how to build a national identity and the nation state, too.

To many this appears to be a lesson they could have done without. Europe, so they assume, is just about to overhaul these old curricula, placing less emphasis on national sovereignty, and paying more attention to the merging of individual executive functions into the common European formula.

If that is the wave of the future, as the mumblings on the German grapevine are saying, why are we going into this national detour in the first place?

Therein lies the irony. Germany is being visited upon by a déja vu she had not expected would catch up with her again in her history.

How she handles the issue of the larger nation will not only determine the future growth experience of her national psychology, but also her actions on the world stage at large.

The old west Germany had lived within what can only be described as the most carefully exculpating terms of political reference ever designed for a leading country.

Poised on the razor's edge of the old East-West conflict she was benignly spared some of the leadership burdens other western nations had to carry regardless of economic or imperial overstretch.

Now all those old vulnerabilities of divided Germany are bygones and with them the extenuating circumstances she used to draw upon when questions of being seen to lead arose.

Watch out, therefore, for the new Germany continuing for a while its low-profile prancing since that is what she knows best and what she used to hide behind when moments of decision-making beckoned uncomfortably.

Do not be too impressed, either, by seeing the German national ego so refreshingly deprecated and debunked by Germans themselves, for you may simply be witnessing an old ritual dance designed to keep demands from the German political doorstep. Give the Germans time to put the east-west Humpty-Dumpty together again; it takes more than a few months for the most mind-boggling test in social engineering – the unification of two "impossibles" – to be passed satisfactorily.

And please, give the new Germany the benefit of the doubt as to the strength of her institutions. They were modelled after some of the oldest democratic traditions of the west, being brought to the western part of the country by the Anglo-Saxon victorious powers.

After forty or so years of a maturing period one may safely say that in west Germany, at least, they have taken sufficiently strong root to provide the other Germany with all the stability she needs as she rebuilds from the wreckage of her past.

A word of understanding could help, too, as the country is trying to balance its new financial burdens – no chicken feed they, by any stretch of the imagination – with the European agenda subscribed to before the Berlin Wall fell.

Should Chancellor Kohl's government decide to go a little easier on, say, the timetable for European monetary union than the original Delors plan had envisaged – well, that may just happen (and might even be greeted with gleeful relief in Whitehall), but it should not be misconstrued as a newly-emerging "German unilateralism" or a tendency to "go it alone".

Actually, nothing would damage the German national interest more than cavalier disregard for the concerns of fellow players on the European stage.

That, in turn, does not exclude the possibility of Germany being quite obstinate in pursuit of her monetary principles en route to the creation of a common European fiscal and banking policy, however.

But that is not a new development emanating from unification. It bespeaks a national consensus only reinforced by the burdens of unity.

It is in the area of political psychology where the biggest obstacles have to be overcome between the two Germanys. Admittedly, there is no quick fix for the warped mind-set one may still encounter in many niches of life in the erstwhile east Germany.

The traces of socialist brainwashing cannot be wiped out overnight – especially not in education and the degrading habit of having one's life taken care of by self-appointed superiors and ideological malfeasants.

Nor will the process of normalisation be without its repercussions in the western part of Germany. People will need to share and participate in the painstaking rekindling of a democratic society among their eastern relatives, while safeguarding some of their own time-hallowed political beliefs against any corrosive influences from the other, more feckless Germany.

No one can tell when that deep chasm of estrangement between two societies which drifted apart over decades of separation will be bridged.

If certain indicators are to be believed, business entrepreneurs on all levels of activities, small and large, will provide the necessary impetus for improvement (leaving only scant Deutschmarks for east European projects). With them will come a new wave of Germans curious about each other and about the country they have been given back with so little international ado.

Sometimes it is the gifts we didn't ask for, the presents that slowly grow on us that eventually give us the greatest pleasure.

By the same token united Germany could do worse than find herself the grudgingly accepted new kid on the block – like an acquaintance renewed and an acquaintance made afresh. Credibility may be no problem if its European instincts belie its ominous new size and power potential. At any rate, it will take more than Germans themselves to nurture it into the confident team-player we all hope it will be.

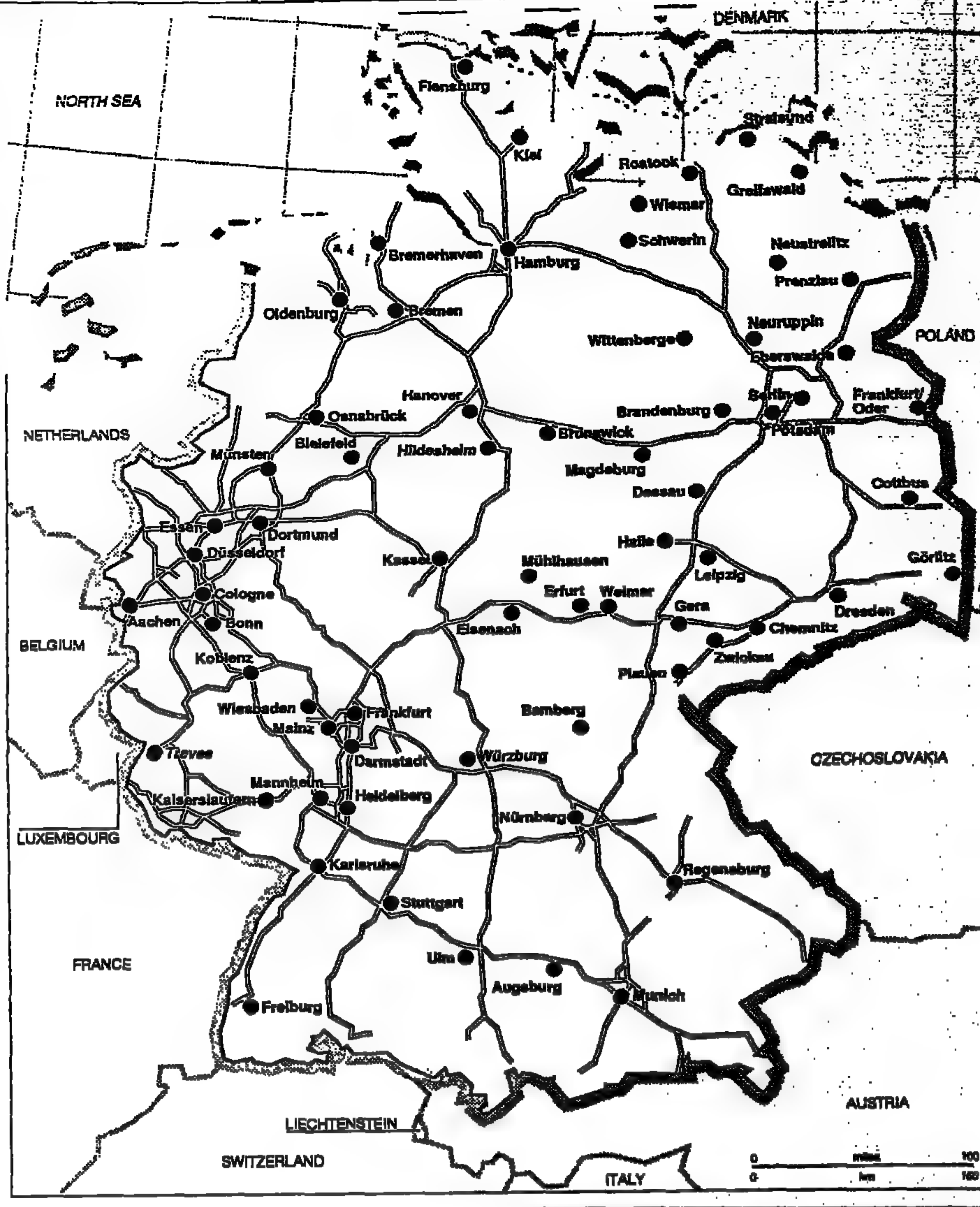
The author is Editor of the Bonn-based weekly, Rheinischer Merkur

The German Federal States

	Area (sq km)	Population (m)
Baden-Württemberg	37,751	9.46
Bavaria	70,553	11.07
Berlin	883	3.34
Brandenburg	29,059	2.61
Bremen	404	0.66
Hamburg	755	1.61
Hesse	21,114	5.58
North Rhine-Westphalia	34,068	16.9
Lower Saxony	47,439	7.19
Mecklenburg	23,838	1.95
Rhineland-Palatinate	19,846	3.66
Saar	2,569	1.05
Saxony	18,337	4.84
Saxony-Anhalt	20,445	2.92
Schleswig-Holstein	15,728	2.57
Thuringia	16,251	2.65

Germany's Largest Cities (population m)

Berlin	3.3
Hamburg	1.6
Munich	1.2
Cologne	0.94
Frankfurt	0.63
Essen	0.62
Dortmund	0.59
Düsseldorf	0.57
Stuttgart	0.56
Leipzig	0.54
Bremen	0.53
Duisburg	0.53
Dresden	0.52
Hanover	0.50
Nuremberg	0.48
Bochum	0.39
Wuppertal	0.37
Bielefeld	0.31
Chemnitz	0.31
Mannheim	0.30



KEY FACTS

Area	138,000 sq miles
Population	79m
Head of State	Richard von Weizsäcker
Head of government	Helmut Kohl
Currency	100 Pfennige = 1 Deutsche Mark
Average Exch Rate in 1989	1.88 DM/$
Capital	Berlin
Seat of government	Bonn
Upper House	Bundesrat
Lower House	Bundestag
Number of Länder	16
GNP (1990 estimate)	DM2,700bn
comprising	DM2,440bn (West)
	DM270bn (East)
Exports	$406bn
Imports	$314bn
Foreign trade balance	+$92bn
Current account balance	+$60bn
Share of EC population	23%
Share of EC GNP	26%

PROJECTIONS

	1990	1991
GNP growth (West)	8.9%	3.4%
GNP growth (East)	-10%	-7−10%

Source: OECD, Deutsche Bank, Bonn govt.

THE new Germany, in one important sense, will be an enlarged west Germany. The process of enlargement however, will change west Germany. The political and psychological make-up of the new country will represent an amalgam of the two parts.

The new Germany will certainly become less homogeneous than either of its two parts. The former east Germany failed to win the hearts of its people, but it succeeded in imposing a highly rigid structure from Rostock in the north to Dresden in the south.

West Germany has been remarkably homogeneous, politically, economically and socially. The south is slightly richer and politically more conservative than the north but in spite, or arguably because of, strong federalism and the quasi-national traditions of Bavarians and Prussians, the regional differences are negligible.

The new Germany will, at least initially, be economically lopsided with one large depressed region in the east. Politically, the centre will continue to dominate but the absorption of east Germany is likely to create new political forces on the far left and far right.

Federalism will also enjoy renewed vigour, partly thanks to the creation of five new Länder and partly as a counter-reaction to the increased power of the central government. The states are increasingly jealous of rights transferred to Brussels and are discussing whether it is possible to conduct foreign policies independent of Bonn.

It is, however, in the domain of culture and psychology that the new Germany will be most clearly divided. The self-confident, modern, west Germans, with their European-American culture, can scarcely disguise their distaste for the backward cousins in the east who have emerged from 60 years of totalitarianism with all sorts of unpleasant attitudes.

The liberal-left elite, who may be denied national political power for a decade thanks to the conservative east Germans, find the cousins particularly unbearable. This section of the elite had long ago come to terms with the division of Germany, indeed found it reassuring – proof that "Germanness" had transcended the single national state.

The writer Patrick Süskind spoke for much of this elite when describing, in a magazine article, how his happiness at hearing that the east Germans

Election campaign posters in Bonn

SOCIETY

The divisions that cannot be papered over

had won their freedom quickly turned to dismay when they chose national unity.

Most Germans under 50 years old would agree with him that they feel more at home in Tuscany than Thuringia. Many, even on the left, would also agree that unification has revealed an attachment to the modest, liberal, efficient, old federal republic that they *did* not know they possessed.

To many young west Germans, the east Germans are above all *spiessig* (petit bourgeois), with the narrowness and authoritarianism typical of the upwardly mobile working class. Unable to travel, disliking their Soviet occupiers, feeling superior to their Slav neighbours, and watching west Germany on TV, they have become dumbly sycophantic looking west and xenophobic looking east. What's more, runs the west German line, "the poor cousins want our money".

Such stigmatisation of east Germans will take time to dispel. Retaliatory east German resentment against snobbish, brusque, rich, "Wessies" could lead to a spiral of misunderstanding between west and east. According to Mr Lothar de Maiziere, the former east German prime minister, the psychological growing together will take "a school generation".

Meanwhile, the old east Germany has a private civil war to overcome. Last year's revolution was so quickly followed by unification that there was no time for a proper reckoning with the past. It is estimated that about two-thirds of the 2m former SED (communist) party members now vote for the centre-right Christian Democrats and many minor officials of the old regime have fitted comfortably into the new order, to the exasperation of the radicals who led the early stage of last year's revolution.

In a society in which almost everybody was to some extent a "fellow-traveller", it is hard to draw a clear line between the innocent and the guilty, as the agonised debates in the east German parliament over the *Stasi* showed. But the lack of a clean sweep of the old order leaves a cloud hanging over east German life and allows every mistake by Bonn or the five new east German states to be blamed on sabotage by "*Stasi* agents".

It seems that the new Germany will not, as some had hoped, absorb much of the human side of east German socialism – the intimacy, the lack of pushiness, the slower pace of life. But will it be more nationalistic? The initial evidence suggests new doubts about reunification in west Germany and the low-key celebrations on October 3 hardly indicate a new national euphoria. And a recent poll in west Germany even showed a majority remain opposed to changing the constitution to allow German soldiers to participate in Nato or UN operations outside Germany.

On the other hand, for more than a decade, coinciding with the rise to power of a generation untainted by the past, a "normalisation" of west German national attitudes has been under way.

Combine that with the enthusiastic nationalism of many east Germans and it seems logical to expect a more assertive Germany to emerge over the next decade.

Germany's political elite – centre-right and centre-left – hopes to channel that assertiveness into "good works", rebuilding the former east bloc, saving the Third World, the environment, etc. But there are indications that the gap between elite and masses, rather narrow in the past, may be growing.

Ordinary people are not becoming aggressively nationalistic, but they may assert themselves more against the liberal consensus. They may be less ready to compromise over EC integration where German national interests appear threatened and less willing to pay for the historic tasks in the east bloc.

A deluge of political rhetoric about Germany's determination to be a good neighbour finds little echo from the people who live along the new Germany's most sensitive border – that with Poland.

Politicians talk of repeating the model of reconciliation with France after the war but on the streets of eastern Saxony, it is hard to find any desire for reconciliation with the Poles.

David Goodhart,
Bonn

David Goodhart looks at prospects for the trade unions

Fearful of power reductions

GERMAN unity has not been a happy experience for its trade union movement.

In the former East Germany the unions were merely organs of the party which collapsed when the party did. There was a brief attempt to establish independent, industry-based, unions along west German lines in their place, but it soon became clear that full-scale takeover by West Germany's 16 industrial unions was inevitable.

Initially, the west German trade unions did not warm to the task, realising how large and expensive it was likely to be. But the collapse of East Germany created a potential threat to West Germany's tightly controlled labour market, in the form of cheap labour, so the unions soon realised that their own self-interest required the annexation of East Germany.

Mr Berthold Huber, an official of the metal union I G Metall, who helped establish its first office in Leipzig in May, said at the time: "A non-union zone in East Germany or wages permanently at one-third the West German level would certainly reduce our own power."

But in fact, west German capital has not hurried eastward to take advantage of the cheaper labour and that labour has become, in any case, considerably less cheap after the first wage round in east Germany soon after currency union on July 1.

The west German unions were pulling the strings behind their east German colleagues in that negotiating round, which increased wages between 20 and 50 per cent.

I G Metall, the biggest union in both Germanys, won a 30 per cent rise, a reduction in the working week from 43 to 40 hours and a 12-month job guarantee for its (then) 1.6m members in the east.

The west German employers, who also pulled the strings behind the newly formed east German employers' associations, complained mildly that the pay rises would not improve east Germany's attractiveness to potential investors, but otherwise they put up little resistance.

The deals, which raised pay levels to about 60 per cent of the west German level, have, by and large, stuck.

Union officials in West Germany say that employees in some endangered companies have agreed to take lower pay rises, but the expectation that the 12-month job guarantee in the metal industry would not be adhered to has proved incorrect. That seems to be largely thanks to Bonn's short-time working scheme in which the government pays most of the wages.

The absorption of East Germany has in fact produced a fine display of west German industrial relations consensus. The big employers are not pressing to keep east Germany as a low wage country; indeed, most experts expect a harmonisation of pay and conditions as early as 1993. Mr Tyll Necker, president of the Federation of German Industry, has even been pressing the Treuhand, the trust body charged with privatising east German industry, to offer more than one place on its supervisory board to a trade unionist.

Mr Gunther Horzetzky, head of the German Trade Union Federation office in Bonn, says that the joint statement on East Germany agreed in June between unions and employers in West Germany shows a far higher level of agreement than usual.

In spite of the polite behaviour of the west German employers, the next few years will be tough for the unions

Nonetheless, he sees difficulties ahead. The organisational takeover of the East German unions has not been without friction.

The former eastern I G Metall did not like being pushed around by the western I G Metall and a nasty inter-union dispute between the West German public services union, OTV, and the mining union I G Bergbau, over who should represent 140,000 east German workers in water and energy supply remains unresolved.

Also union density in the eastern part of a united Germany is likely to remain considerably below west German levels for several years, thanks to a reaction against all collectivist organisations, especially in Saxony, the industrial heartland of east Germany. I G Metall officials have predicted that they could lose up to 1m of their 1.6m east German members.

The most immediate problem for the unions in the east is that they do not have the qualified people to operate West Germany's complex labour laws.

The whole system of co-determination, works councils and social plans has been extended to east Germany and in west Germany there are 16,000 trade unionists specially trained to represent workers in tribunals and carry out other official functions. About 2,200 are needed in east Germany.

Next year's wages round in east Germany will certainly be tougher for the unions. Properly differentiated wage structures will have to be established and the centralised bargaining system might have to accommodate two zones for a transitional period. Mr Franz Steinkühler, head of I G Metall, has already accepted that in principle.

Mr Steinkühler will certainly be relieved that his union has its phased reduction in the working week to 35 hours in west Germany under its belt. For, in spite of the polite behaviour of the bigger west German employers, the next few years will be tough ones for the unions.

They will have to spend a lot of time and money on bread-and-butter trade union issues in the east and wage a constant campaign against smaller employers who will be keen to hire the many east Germans ready to work for far less than their west German cousins.

FOREIGN WORKERS

Not an easy life for the guests

FOREIGN "guest workers" living in west, and especially east, Germany do not expect to enjoy an easier life as a result of unification. As unemployment rises in east Germany, perhaps pushing the all-German jobless figure up to 4m in the next 18 months, the political demand for repatriation may grow louder.

There are just over 5m foreigners living in the united Germany, about 6.4 per cent of the population. In the east it is 1.6 per cent, in the west; 7.7 per cent. In the west, the largest group, nearly one-third, are the Turks, who are the least well integrated of the big foreign communities. Behind them come the Yugoslavians, 13 per cent, and the Italians, 11 per cent.

Of the 191,000 foreign workers in east Germany, 31 per cent are Vietnamese and 27 per cent are Polish. Attempts have been made to cut short labour contracts of east German guest workers but the governments of Vietnam and Mozambique have been reluctant to agree.

Germany is *de facto* a multicultural society but the centre-right Government in Bonn believes that most Germans do not like the idea, and has tried to persuade Turks to return home, with little success. The left has been pressing for voting rights at local level for guest workers who do not want to abandon their own citizenship (Germany does not recognise double citizenship) but the attempt to introduce such voting rights is being challenged in the courts.

DG

PROFILE: Horst Teltschik

Firm hand in foreign affairs

DURING THE dash to German unity, Mr Horst Teltschik, the chancellor's foreign policy adviser, has been at Mr Helmut Kohl's side all along. Looking back over a hectic year, Mr Teltschik says with relieved understatement: "It has all gone very satisfactorily."

A youthful 50-year-old, Mr Teltschik joined Mr Kohl's team in 1972 (when the latter was state premier in Rhineland-Palatinate) and has been one of his closest associates ever since. The head of the Chancellery's foreign policy and security department has had a decisive hand in all the milestone events along the reunification road – the chancellor's 10-point unity plan last November (quickly overtaken by events), the decision in February to aim for speedy currency union, and the crucial meeting with President Gorbachev in the Caucasus in July.

Horst Teltschik: 'It has all gone very satisfactorily'

"These have all been very unbureaucratic decisions, under the pressure of circumstances," says Mr Teltschik. "Much had to be done without preparation. There were no precedents. Each time, we were doing something which had never happened before."

Tousle-haired Mr Teltschik still has the look of an overgrown student. He was born in the Sudetenland area of Czechoslovakia, and as a five-year-old was forced to flee at the end of the war with his family to Bavaria. He was head of the Christian Democrat student association at Berlin's Free University in the late 1960s, but was independent-minded enough to be taken on as assistant to Professor Richard Löwenthal, the Social Democratic political scientist.

Mr Teltschik has a slightly self-deprecating manner, mixing straightforwardness with occasional whimsy. It is an effective combination. There is no love lost between him and Mr Hans-Dietrich Genscher, the foreign minister. The top Chancellery job held by Mr Teltschik since 1982 traditionally goes to a mainstream foreign ministry man. Mr Teltschik came in as an unconventional outsider. His periodic exercises in undiplomatic plain-speaking – especially, his harder line towards the Soviet Union – frequently earn him criticism from Mr Genscher's officials.

An example of the differences in style came when Mr Eduard Shevardnadze, the Soviet foreign minister, suggested at the first "2 plus 4" session in May that German unity could be concluded without giving Germany full sovereignty over its external affairs. Mr Genscher agreed, believing that was the best which could be achieved at the time from Moscow, but Mr Teltschik quickly went on record to reject the proposal.

It soon became clear that Mr Kohl was listening to Mr Teltschik, not Mr Genscher, and official Bonn policy swung behind the line that internal and external sovereignty should be attained at the same time. That is what happened on October 3. Now that unity has been attained, Mr Teltschik is adamant that Bonn's policy has to be geared towards continued integration with the west. He is firmer here in his language than Mr Genscher, who says that there is no longer any distinction in political terms between east and west.

Mr Teltschik concedes that Nato will have to increase its political character because of the reduced threat from the east. But, in marked contrast to Mr Genscher, he still calls the Soviet Union a "security threat" – both because of Moscow's continued vast arsenal of 12,000 nuclear warheads, and because of its various internal nationality problems. The mutual non-aggression pledge in the new Soviet-German co-operation treaty is an "instrument" to reduce the likelihood of the risk becoming acute, Mr Teltschik says.

Mr Kohl's adviser is adamant on the need for US troops to remain in Germany (though fewer of them than at present) even when the Soviet army pulls out from the east after 1994. He accepts that, if US soldiers are to stay, nuclear weapons must remain an essential ingredient of German defence.

Mr Teltschik also says that the Bonn-Moscow relationship will not overshadow the political axis between Germany and France. "Nothing changes the priorities of German foreign policy." But he is frankly disappointed that Paris has so far not come up with a new security concept to match up to the reality of German unification.

Nato proposals to organise western forces on west German soil in multinational contingents have been bogged down by France's refusal to integrate its army within the alliance. Another stumbling block comes from France's doctrine of independent nuclear deterrence – above all, its plans to upgrade its short-range nuclear weapons with the Hades missile (which if launched would land within united Germany).

The more the US troop presence in Europe is reduced, Mr Teltschik says, the greater will be the need for Europe to organise its defence itself. This is where the proposed change in the German constitution to allow "out of area" operations by the Bundeswehr will take on crucial significance.

Mr Teltschik says that to change the constitution simply to allow Bundeswehr participation in UN peace-keeping would be "wrong". The chancellor wants a more widely drawn commitment to allow the German army to participate in other operations as part of combined initiatives carried out within Nato or the European Community. If there were a future flare-up on Europe's borders, for instance in the Mediterranean, he says that: "I could imagine the Americans saying it's not our job – it's the job of the Europeans."

The constitutional modification will need a two-thirds majority in the Bundestag, and thus will go ahead only if the Social Democrats agree. Mr Teltschik warns against assuming that the far-reaching change at present advocated by Mr Kohl will be easy to achieve when parliament deliberates the matter early next year.

David Marsh

PROFILE: Oskar Lafontaine

Victim of unity

MR OSKAR Lafontaine is the main political victim of unity. Last October, the 47-year-old premier of the Saarland still seemed the sensible choice as Social Democrat chancellor candidate for the national elections this December.

After the failure of the schoolmasterly Mr Hans-Jochen Vogel in the 1983 election and the uninspiring Mr Johannes Rau in 1987, the pugnacious Mr Lafontaine was a breath of fresh air. "He embodies the post-material, post-nation state values of our West German generation," says a friend.

Unfortunately for Mr Lafontaine and the SPD, these progressive west German values are alien to most east Germans, who prefer Mr Helmut Kohl's simple national pride and his embodiment of bourgeois well-being.

West Germans such as Mr Lafontaine are not actually opposed to reunification but certainly out of sympathy with the feelings that accompany it. Germany, he has said, is a "provisional entity", which has rediscovered national unity just as the nation state is becoming superfluous.

The SPD now seems saddled with an all-German liability rather than the uplifting standard-bearer of west German red-green politics they chose a year ago. Mr Lafontaine cannot appeal to both west and east Germans without changing his basic approach, which he has refused to do. Whether he lives to fight again may depend on how badly the SPD is defeated, how much of the blame he has to carry, and how he reacts to his first big political defeat.

Colleagues who argue that his refusal to adapt to the new reality has cost the party dear have some damning evidence. The SPD did not suffer, initially, from the rush to unification. It reflected, better than the government, West Germany's ambivalence towards the collapse of East Germany.

With the elderly ex-chancellor Mr Willy Brandt (briefly considered as a possible replacement to Mr Lafontaine) tweaking the pro-unity emotions of his own generation and Mr Lafontaine ignoring nationalist emotion in favour of the social and economic problems of unity, the party appeared to have an effective double act.

Oskar Lafontaine

Things started to come apart with the East-SPD's poor performance in the free elections in East Germany in March. Then, in April, Mr Lafontaine suffered a knife attack which nearly killed him. Many supporters hoped he would emerge less belligerent, perhaps even humbler – but the opposite was the case.

At the beginning of June, after a two-month convalescence, he gave an interview in which he told his SPD colleagues that they had been doing a rotten job in opposing Mr Kohl's rush to unity; that the latter's decision to opt for early monetary union was disastrous; and that the state treaty accompanying monetary union should be symbolically voted against in the Bundestag, where the party did not have the votes to block it, but reluctantly supported in the Bundesrat, where it did.

It was a mistake which seemed to crystallise Mr Lafontaine's weaknesses as a chancellor candidate, and sent his own and the SPD's ratings plunging. "The wrong man at the wrong time", declared the SPD-sympathetic Die Zeit.

Never a reassuring man or politician, he seemed unable to grasp the East Germans' need for hope. Even when he was right, his negativity lost him political credit. He was right, for example, about the need to stop east German immigrants pouring into the west, prior to unity, but he managed to sound anti-east German.

Arguably, he was also right to claim that the government's rather laissez-faire approach to monetary union was causing unnecessary economic destruction and raising the price of unity for west Germans, but sounded as if he was promising more state support to east Germans while bemoaning the costs of unity to the west.

Mr Lafontaine cannot be written off. He is one of Europe's first real post-industrial political leaders. He comes from the left but regards himself as a problem-solver and if left-wing ideology or trade union interests get in the way of a rational solution, he chooses the rational solution.

The "ecological restructuring" of industry is his main theme, but by SPD standards he is rather pro-market and is certainly convinced that social democratic politics cannot be bought with large public deficits. He is also prepared to challenge party shibboleths on immigration while attacking the centre-right for its "German-blood" policy towards east European immigration.

He also has an impressive record in his home state of Saarland, a depressed former steel and coal region. He was born there in 1943, the son of a baker killed on the last day of the war, and was brought up by his devoutly Catholic mother. He joined the party in 1966 while studying as a physicist and 10 years later became the youngest ever mayor of Saarbrucken, the state capital. Then in 1977 he won the state from the Christian Democrats, becoming the youngest ever minister president.

Despite resentment of his high-handed manner he also risen rapidly in the national SPD, helped by a speaking ability rare in German politics. His cocksure manner can sometimes appear rather immature, his delivery rather automatic, and his intellectual arrogance unbearable. But unlike some politicians, his love of power does seem to know limits.

He has a life and interests outside politics; friends say he has often considered retiring from public life. His life-style could scarcely be more different to Chancellor Kohl's ultra-German conservatism.

Mr Lafontaine holidays in Spain or Italy, as opposed to Mr Kohl's Austria; he wears stylish clothes, counts pop-stars among his friends, speaks French and English, and is a good cook. He is twice divorced with a young son and now lives with a 34-year-old economist, described as a "feminist punk" in the popular press, who has strengthened his concern for sex equality.

He appeals to the generation which was marked by the 1968 student movement, most of whom have grown to like their modest little republic and feel uncomfortable about Germany playing a larger role on the world stage.

David Goodhart

Profile: Hans Daniels

Bonn stakes its claim

ON SHOW in a display cabinet outside the office of Mr Hans Daniels, the mayor of Bonn, is a collection of gifts from the great and the good, *writes David Marsh.*

A stream of visiting foreign leaders has climbed the Renaissance town hall steps over the last four decades to inscribe their names in the city's Golden Book – and most have left behind some memento.

Mr Daniels rather likes the angular pop art sculpture in pink, black and white brought by President François Mitterrand in 1987. Slightly more conventional – but no less ugly – is an ornate vase with views of the Kremlin offloaded by President Mikhail Gorbachev in 1989.

The flow of stately presents for Bonn may dwindle now that Berlin has been formally made the capital of the new Germany. But it will dry up altogether if parliament next year decides to make the old Prussian capital the seat of government as well.

At present, this seems unlikely. Mr Daniels' lobbying to convince the Germans of the merits of splitting capital city functions between Bonn and Berlin has fallen on generally receptive minds.

Largely because of anxieties in both east and west Germany that a fully-fledged capital in Berlin would weaken the structure of federalism, Mr Daniels is confident that there will be no early move from the Rhine. "The more people think about it, the more they see that there is no sensible reason to transfer the government."

Longer term, however, Berlin has some strong cards to play. Hitler disliked the city on the Spree and dreamed of rebaptising it Germania once it had been rebuilt according to the ideals of monumental fascism. Bonn has undoubted small-town charm. But the Führer's remark in the mid-1930s to his architect Albert Speer – "Artificially-created cities always remain lifeless" – still strikes a chord with some Germans.

The attractions of Berlin will rise once the short-term economic and social problems of reunification start to fade later in the 1990s. The Berlin of 1929 – with a population of 4.3m, boasting at Tempelhof the biggest and best airport in the world, and providing the headquarters of one quarter of all German joint stock companies – will not be recreated in a hurry.

But a parliamentary thumbs-down for Berlin next year will not represent the last word on where the German government will end up.

Even if Bonn wins a stay of execution, the many foreign governments which have maintained pre-1945 embassy sites in Berlin can still be expected to keep open the option of an eventual return to the Spree.

Daniels: no early move

PROFILE: Günther Krause

CDU reformer

MR Günther Krause's former life – lecturing at the Technical University in Wismar – seems far remote from that of the 37-year-old minister in Chancellor Helmut Kohl's Cabinet who is responsible for the east German economy.

But the stocky technocrat with doctorates in construction engineering and information systems still speaks with pride of developing a computer-aided system to vary the pre-fabricated apartment buildings in Rostock so that they stood out from East Germany's endless blocks of slab-housing.

In 1987, Mr Krause became regional head of the Christian Democratic Union (CDU) which he had joined in 1974 after an obligatory two-year stint in the National People's Army. The CDU was the largest and most servile of the "bloc" parties allied with the ruling Communists.

The demands made on non-communists such as himself, Mr Krause noted recently, were far greater than on "comrades". "One had to achieve more than a Communist to get anywhere," he observes.

When Mr Mikhail Gorbachev buried the Brezhnev Doctrine of limited sovereignty for Moscow's allies, Mr Krause saw East Germany's chance to become more independent. He and a group of like-minded CDU members met privately to discuss the failures of the planned economy and the only alternative, the social market economy in West Germany.

After the Honecker regime fell Mr Krause was elected CDU chairman in the northern state-to-be of Mecklenburg-Vorpommern. Delegated to the party executive in Berlin, he caught the eye of Mr Lothar de Maiziere, the new CDU chairman. Highly articulate – although his soft accent still betrays his origins in Halle – and able to digest great amounts of information, he exuded a self-confidence rare among east Germans.

Mr Krause was chosen as CDU parliamentary whip and in April was appointed state secretary to Prime Minister de Maiziere. It was in this post that he led the East German delegation in the negotiations for German union.

One of his most difficult moments, he recalls, came on the first day of negotiations in April when he was presented with West Germany's rough draft of the treaty. "I had only four hours to study it and prepare our position," he notes.

Another precarious moment was during a demonstration last summer by tens of thousands of irate farmers in East Berlin at which the agriculture minister was shouted down and pelted with fruit. Mr Krause, no thin-skinned individual and married to an agricultural scientist, grabbed a microphone and assured the farmers that aid was in the pipeline.

Krause: practical

"You don't see the farmers demonstrating these days," he notes with satisfaction. He is in favour of founding new farm co-operatives and even large-scale state farms. "Remember, 60 per cent of the land in Mecklenburg and Vorpommern consisted of state farms before the war," he recalls.

Mr Krause's services to German unity, his engineering and computer background and his strong practical bent, led Chancellor Kohl to confirm him as one of the four new east German ministers without portfolio. His brief is to co-ordinate the structural changes in the ailing economy, a task which will directly involve him with the Treuhand, the agency responsible for privatising east German companies.

Accompanying Chancellor Kohl to the opening of an Opel assembly plant in Saxony recently, Mr Krause spoke out sharply against local authorities in the east for failing to use appropriated investment funds. They are more interested in selling public land profitably than in attracting new business ventures, he claims.

Far too many company directors in the east are leftovers from the old regime and learned about capitalism from Karl Marx, he says, smiling thinly. Workers are suspicious of these directors who have merely changed their titles and frequently enriched themselves in "scandalous" fashion. The growing number of new Mercedes and BMWs with east German licence plates parked outside factories and offices appears to bear him out.

He insists that he never believed the problems of east Germany could be solved in a year. The nadir of economic activity would be reached in January and February and then pent-up demand for construction would surge in the spring, gradually pulling up the rest of the economy with it.

Leslie Colitt

Ernst-Moritz Lipp assesses the economic outlook

'Gründlichkeit' has to fall by the way

THE extended Federal Republic has to cope both with the shock of internal currency union and the changed external circumstances caused by the Gulf crisis.

The primary effects of both events can already be analysed. The larger part of the new Germany – the 11 Länder from the West – is still enjoying unbroken growth. July's introduction of the D-Mark into east Germany set off a strong demand push benefiting the west German economy. Domestic demand for manufactured goods rose in July by 4 per cent compared with June, and was up 5.5 per cent compared with the average level of the second quarter.

The exaggerated "demand shock" expected by many will not materialise. German producers have reacted to the extra demand with great flexibility. Especially in consumer goods, German capacity limits are much less rigid than had previously been feared.

Another factor easing strains has been that exports have slackened appreciably and that German wholesalers have been stepping up imports. With the expansion of the goods range on offer in eastern Germany, turnover in the west German retail trade will normalise in coming months and will shift, in effect, to the east. Companies are also moving increasingly towards starting up production facilities in east Germany. *The west German* washing powder manufacturer Henkel, for instance, has decided to buy a company in east Germany, and will produce and package washing powder "on site" in the new market. Only the east German company's research department will be closed, as Henkel *has sufficient capacity at* its headquarters in Düsseldorf.

Similarly, we shall see food companies turning increasingly to east German production. For the moment, though, a "split economy" between east and west Germany will continue. In the west, output is *expanding sharply*, while in the east, it is still falling. This has not happened merely since currency union on July 1 – production in the east has been in decline since the end of 1989.

Although the situation varies from sector to sector, production in the east by the end of this year is likely to be 10 to 20 per cent lower than at end-1989. The decline is particularly pronounced in sectors *such as confectionary*, coffee, precision and optical machinery, mining equipment and plastics, which have registered reductions of between 20 and 50 per cent.

On the other hand, some sectors are enjoying high growth rates – printing, shipbuilding, data process*ing, railway wagons and measuring* and control equipment. There are signs of an end to the recession in the east German construction industry, while the general situation in the retail and services areas is stable.

In the meantime even pessimistic observers abroad should realise that reunification will not lead Germany on to an inflation path. Forecasts in London and New York at the beginning of the year that Germany would have an inflation rate of 6 per cent were completely overdone. On the contrary, unification has proved to have more deflationary *than inflationary consequences.*

This will remain the case for as long as wages in east Germany remain clearly below the level in the west of the country – a period which will last for several years still. During this time, there will be a natural brake on wage increases in the west. East German workers on lower wages will be travelling in to find employment. Even after the dampening of the great flood of emigration at the end of 1989 and the beginning of 1990, many east Germans are still attracted by the idea of moving permanently to the west.

Monetary analysis also shows that a wave of inflation cannot be expected. The Bundesbank has taken over the monetary controls for the whole of Germany. Among the east German population, there is great interest in capital accumulation. Investors are buying up securities to profit from high rates of interest. One old cliché has been reproven: the Germans in east and west are great savers.

What about the general economic policy environment? The public sector deficit has been sharply expanded, and will be around DM100 bn for 1990 alone for the whole of Germany. The increases in state spending have had a clear effect in boosting the economy. Certainly, without reunification, nobody would have suggested running an expansionary fiscal policy in 1990 and 1991. Now, however, circumstances have changed. Budget policy is helping the new Germany to become a stabilising factor for the whole of Europe – including the former east bloc countries. The high German deficit is also helpful in countering any risks stemming from the uncertain state of the world economy.

It will none the less be necessary for the central, state and municipal governments after the elections on December 2 to agree a budgetary consolidation package to reduce the public deficits from 1992 onwards by DM20bn or more. The unity euphoria has certainly proved short-lived.

But the reports of crisis in east Germany are only one part of the truth. Although the east Germans have their backs to the wall, creative forces are being released which a year ago would have been undreamed of. In some industrial sectors, investors who are seeking to acquire companies find that the competition has bought up everything available. In the next few weeks the Treuhand is sending out the prospectuses for privatising 1,500 companies. Soon afterwards, foreign and domestic investors will be called to put in bids, and then the Treuhand will have to make quick decisions on what offers to accept – at what price. Improvisation is necessary – and the well-known German "gründlichkeit" (thoroughness) sometimes has to fall by the wayside.

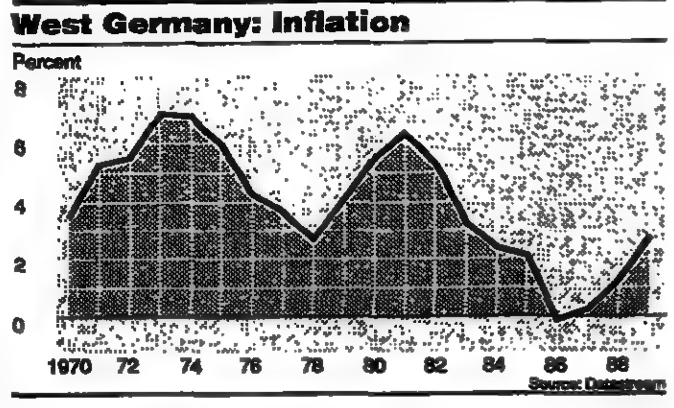
In a few years' time, the economy in the eastern part of Germany will look completely different from today. There will be less industry, and more trading and service companies. I am not just thinking of sausage stands. Rather, at the moment there is a lack of many type of business-oriented services – transport and storage, repair workshops, consulting, communications companies, financial services. This gap will be made good.

The regional economic structure will also look different. There will be focal points of growth, probably, in the south, around Dresden and Leipzig, and these will attract jobs and investment from the areas around. Dresden (500,000 population) can, for instance grow to twice the size of today. There will clearly be fewer industrial production sites than ordained by economic planning of the last 40 years.

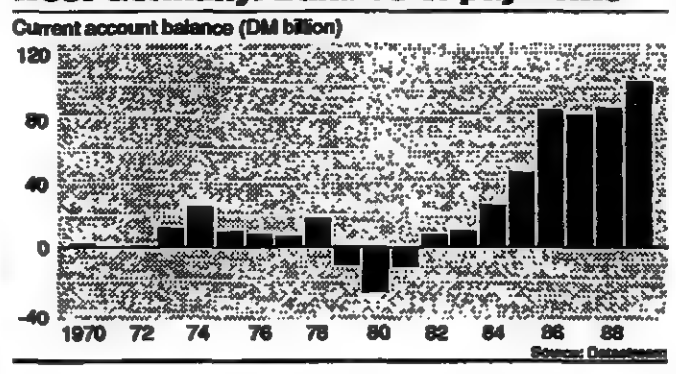
So it is no wonder that we see TV pictures where factory closures lead to half the workforce in small towns losing their jobs. New ones will be created in new places, in the new growth areas, and people will have to commute to work in the morning and evenings. As a result, the *decline* in employment which we are seeing in east Germany will continue further. As part of the removal of structural damage wrought during the last 40 years, job cuts are painful, but necessary.

The author is chief economist, Dresdner Bank

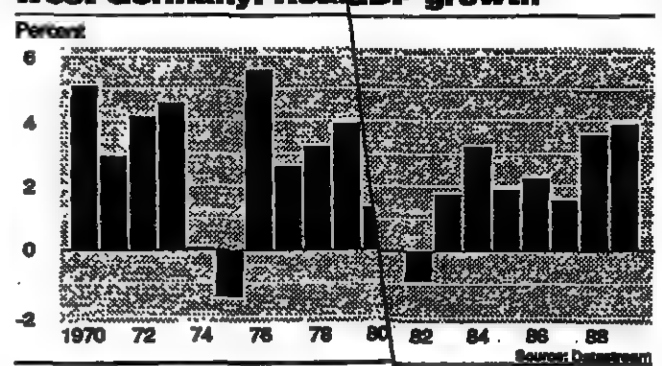
West Germany: Inflation



West Germany: Balance of payments



West Germany: Real GDP growth



Demand from the east has industry hopping, writes Andrew Fisher

Invasion of consumables

TAKE a trip into east Germany and what do you see? West German cars, west German kitchen equipment, west German sewing machines, west German toys, and west German machinery, in fact the west German version of almost any product you can think of.

True, it is not a monopoly. When it comes to hi-fi and home electronics, it is Japanese goods that are mostly in demand. Some of the cars are also Japanese, or French or Italian, and the shops and supermarkets are stocked with a variety of products from around the world which east Germans previously only knew about from television.

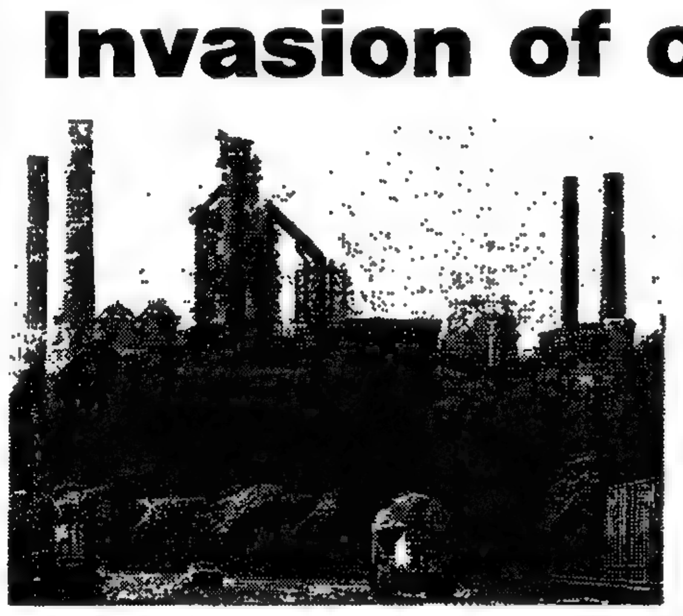
In short, east Germany has been *invaded by sellers of* western goods, and most of them are from west Germany. Without the wealth and industrial success of the west Germans, the five new states in the east would have far less chance of making the grade to the prosperity of the free market. Even with this backing, the road will be a tough one.

One of the main forces behind the peaceful street revolution which led to the toppling of the Honecker regime was the lure of western goods and the realisation by East Germans that they had little chance of obtaining them. This was not the only reason, by any means. Others were the desire for more freedom, disgust at excessive pollution, irritation with the stifling bureaucracy, and anger at the secret police. However, frustration with their limited economic prospects firmly underlay their discontent.

In view of the immense financial and economic challenge posed by German unity, it is just as well that west German industry *is moving along* at a cracking pace, although this also means capacity bottlenecks and skilled labour shortages. The revenues generated by west German companies, which are benefiting considera*bly from the surge of demand* from the east, will help pay for the climbing costs of unity. East Germans are keen to buy west German goods for the same reasons that these have had such success in world export markets: high quality and reliability; punctual delivery; and modern, functional design. They are far better packaged than goods in the east, a point which east German consumers appreciate after decades of drabness.

West German industry is also a world leader in avoiding and combating pollution, although west Germany is by no means free of environmental problems. By locking on to west Germany's industrial success, Germans in the east hope to close the huge gap in living standards. For their part, many west German companies see worthwhile investment prospects in the east, although there has not been an industrial spending wave there yet.

The most highly publicised venture has been that of Volkswagen, the car company, with a DM5bn investment to produce family cars. But other big concerns like Siemens, the electrical and electronics group, Mercedes-Benz, the truck subsidiary of Daimler-Benz, AEG, the electronics and electrical subsidiary of Daimler, and energy companies RWE and Veba are also putting down roots in east Germany.



Ashley Ashwood

The Ruhr district near Moers

On a smaller scale, BMW, the up-market carmaker, plans to set up a plant for large machine tools, while Robert Bosch is linking up with an east German company in the car components sector.

All of these west German investors are household names. They represent west Germany's industrial might, which has turned in soaring trade surpluses and made the country into one of the world's most powerful exporters, its main markets being in nearby western Europe.

Now that some of these neighbouring economies are slowing down, some of the west German output that might have gone to, say, France, the Netherlands, or the UK, is moving into east Germany. This will have the healthy effect of curbing west Germany's big trade surplus, which totalled DM135bn in 1989, but could cause inflationary problems later as output continues at full stretch. Because of east Germany's relative small size compared with other big markets, many companies from west Germany can obviously meet demand from their home bases, sending in goods rather than investing in new plant in the east. But whether they stay put or advance eastwards, new capacity will be required to satisfy the extra 16m people added through German unity. Thus the west German corporate investment drive is likely to continue.

West German companies have already pushed deeper into worldwide markets, their earlier selling successes more recently being followed up by direct investment, notably in the US. Not all these have been successful. But the US acquisitions in the late 1980s by the Hoechst chemical group of Celanese, by the Bertelsmann media concern of RCA records and Doubleday publishing, and by Continental tyres of General Tire, have shown that German business is becoming more multinational.

The chemical and pharmaceutical groups, including BASF and Bayer and the smaller Henkel and Schering, are among the most global of west German companies. So, too, are the motor manufacturers. VW is involved in Spain, South America, and China, while Mercedes also has truck plants in South America and Spain, as well as in the US, *Indonesia, and South Africa.*

The fact that many German companies have spread their activities so far afield gives them extra financial and industrial strength, but certainly does not make them any less vulnerable to market pressures. Nixdorf Computer, for example, a former high-flyer, has been taken over by Siemens after it ran into acute difficulties in a toughly competitive market. VW has come under cost pressures, while the big chemical groups have seen their profits eroded by the strength of the D-Mark.

Providing a taste of what the future may bring for west German companies, unused to the threat of hostile takeovers, Pirelli of Italy recently launched a bid for Continental tyres which sent the latter rapidly into defensive gear. It comes as the world tyre industry is suffering from low prices and intense competition. Whatever the outcome of Pirelli's attempt, the German corporate scene will probably never be quite the same again. With all the excitement about opportunities in the east, it is easy to forget that German companies are still fighting their main battles in western markets.

Top German Companies in 1989 (DMbn)

	Turnover	Net Profits	
Daimler-Benz	76.4	6.8	Motors, Aero
Volkswagen	65.4	1.0	Motors
Siemens	61.1	1.8	Electricals
Veba	49.2	1.3	Energy, Chems
BASF	47.6	2.0	Chemicals
Hoechst	45.9	2.1	Chemicals
Bayer	43.3	2.1	Chemicals
RWE	39.0	0.7	Electricity
Thyssen	34.2	0.8	Steel
Bosch	30.6	0.6	Electricals
BMW	26.5	0.6	Motors
Ruhrkohle	23.4	0.4	Coal
Mannesman	22.3	0.5	Engineering
Adam Opel	20.8	1.1	Motors
Metallgesellschaft	20.1	0.2	Metals
Ford	19.8	0.4	Motors
Krupp	17.7	-0.5	Engineering
MAN	17.1	0.3	Engineering
Preussag	16.4	0.3	Energy
Degussa	14.4	0.2	Chemicals

David Goodhart looks at the economic prospects in the east

Slumbering but not dead

THE CONSERVATIVE German Economic Institute recently published a report predicting that future economic growth in east Germany would be 7.5 per cent a year and that the lift to the west German economy from unity would make the undertaking self-financing.

Germany's Trade Union Federation could not control itself. Next day it responded on the front page of the main business daily, saying that GNP in eastern Germany would fall by more than 10 per cent this year and the same again next year; the east would soon have 2.5m unemployed, including short-time workers doing nothing; and unity would require fresh borrowing of DM100bn per annum for several years.

Both views are right, it just depends which data you choose to highlight and, in particular, what time-scale you take. The consensus is that the upswing in east Germany will begin in the second half of next year; roughly 18 months after monetary union was agreed. Rather later, in other words, than most people had hoped.

That upswing *depends on* investment and even Mr Helmut Haussmann, the Bonn economics minister famous for his bland optimism, admits that he underestimated how unattractive it would be to invest in the east. A recent poll of west Germany's top 500 companies found that only 3 per cent are producing or operating in east Germany, although nearly 50 per cent said they intended to start investing before the end of next year.

Most of the very largest companies – Volkswagen, Daimler, RWE, Siemens – are there, heavily in the case of Volkswagen, and there have been a few well-publicised investments by non-German companies, but private capital is still only trickling eastwards.

Politicians promised that with monetary and economic union on July 1, and later with *full union on October 3, all hin*drances to investment would be swept away. But two have remained obstinately immovable: the lack of suitable property and the lack of decent infrastructure.

In the face of these, and other, *disincentives, Chancel*lor Helmut Kohl's attempts to prod west German businesses' patriotic conscience has had little effect. The government is trying tastier cash incentives. Investment grants in east Germany can be as high as 33 per cent, and now the Free Democrats are pressing hard for a temporary *suspension of all* corporate taxes in the east.

That might help, although Mr Klaus-Dieter Findeisen, head of KPMG Peat Marwick Treuhand, believes that west German business is waiting for prices in east Germany to hit rock bottom before moving in to pick up the pieces.

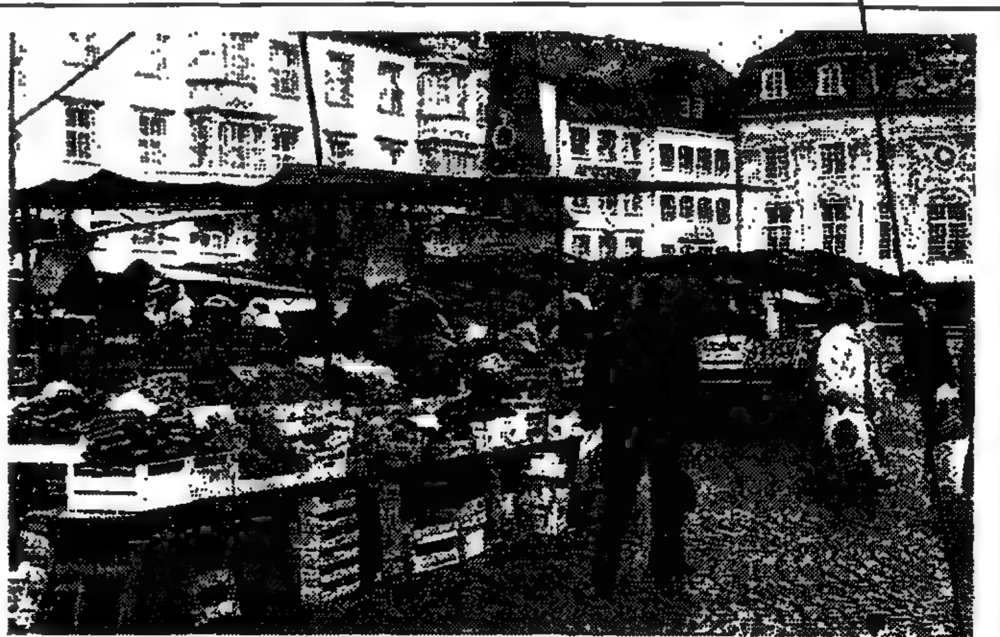
Investment decisions take time, so it is unfair to bemoan the lack of western investment after only four months of economic union. But there have been a few other unpleasant surprises, such as the swift collapse of east German agriculture, for which the government seemed quite unprepared. East German consumers completely abandoned their own farm products in favour of west German products.

East German food surpluses *are being sent to the Soviet* Union. But other deliveries to the former east bloc appear to be grinding to a halt. The honouring of east German industry's contracts further east was supposed to act as a cushion during the process of adaptation to a market economy but many contracts have been can*celled because the former east* bloc countries cannot pay the hard currency prices.

Scare stories predicting social unrest in east Germany as unemployment began to rise have proved unfounded. Most of the 500,000 unemployed workers are getting paid more now than they did when they worked. They get 70 per cent of wages which have risen between 30 and 50 per cent since July 1, although average wages remain about 60 per cent of the west German level.

Short-time working effects 1.8m, of whom nearly one-third are in effect doing no work. In most cases they receive 90 per cent of the newly raised wages, Bonn pays 65 per cent and the companies pay the rest. Workers on short-time are supposed to be retrained, but few are.

Bonn's support for short-time working runs out next June, and full unemployment benefit lasts only about a year, so if new jobs are not being created by then, more east Germans could start to feel the pinch. But they will continue to cost Bonn a lot of money and to depress tax revenues from east Germany; so the later the "take-off," the higher *the cost of unity.*



Ashley Ashwood

The market square in Bonn

Reports claim that the cost of living in east Germany has fallen since monetary union, in spite of the price rises, thanks to problems in the retail sector. Prices have tumbled for cars, televisions and luxury goods but the price of basics is certainly higher than it used to be. Existence has become more expensive, though living com*fortably is cheaper.*

(That is one reason Bonn has just decided to raise the minimum pension, of DM495 a month, by 15 per cent, especially as more subsidies, on energy for example, will disappear from next year).

Meanwhile, in spite of having just swallowed DM30bn in liquidity credits, the east German corporate sector has only just begun rationalising, with about 25 per cent of companies *destined for closure.*

The growth sectors in the short term will be services and building. Parts of the machine tool sector have a future. West Germany's car industry, in particular, has indicated that it wants to see the growth of a competitive *machine tool* sector to reduce its dependence on a handful of west German suppliers. East German companies may benefit for similar reasons in other sectors.

Judging by the small business sector, the entrepreneurial spirit is still slumbering but not completely dead. Nearly 30,000 applications have been made from east Germany to the European Recovery Programme for cheap loans. Mr Roland Berger, leading consultant, reckons that living standards in east Germany will reach the current west German level by 1995 and that economic disparities should have all but disappeared by 2000. On the way, he predicts unemployment in east Germany will reach 3.2m, in spite of the withdrawal of 1m women from the labour *market.*

He says that by 2000 east Germany will be the Japan of the EC with a more sophisticated infrastructure than west Germany. But like many other critics, Mr Berger believes that the first few months of economic union *could have been* better organised.

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East Germans share their western cousins' driving passion

Full throttle to the future

Ashley Ashwood

From the sublime to the ridiculous: the Trabant makes way for luxy cars from the west

FOR second-hand car dealers, the coming together of the two Germanys has been a bonanza. Once the border was thrown open in November last year, long-deprived east Germans were able to indulge two tastes for which their western cousins had become famous: cars and travel.

From their closed-off Stalinist economy, most east Germans had been unable to visit the west. Although many had cars, these were mostly outmoded domestic models, comparing poorly with those produced in the west. So once the D-Mark was introduced in July, and even before, they got out their savings and sped to the nearest used car lot.

The streets of Germany's eastern regions, many of them rutted and potholed, have filled rapidly with second-hand models from the west. Most are family cars, but a few of the more well-heeled east Germans managed to lay out enough for relatively new Mercedes and BMWs. Even Porsche has sold a few new models in the east.

Once the east German economy picks up, demand for new cars is expected to rise sharply. Volkswagen, involved in a DM5bn project near Zwickau, expects the market to reach 500,000 new cars in 1995 and around 700,000 by the end of the century. It expects to sell 50,000 new cars this year alone in east Germany, far more than it first estimated. Next year, it hopes for 100,000.

By the end of the 1990s, car output in east Germany should total some 440,000 units a year, according to Automotive Industry Data of the UK. This will take total car production to more than 5.3m units from a forecast near 5m in 1995 and 4.8m (of which 4.6m was in west Germany) last year.

VW's goal is to bring capacity at Zwickau up to 250,000 Golfs a year, having begun with assembly of its small Polos. Opel, the German subsidiary of General Motors of the US, wants to build a plant at Eisenach, just inside the former east German border, to turn out its small Corsa and family Kadett models.

Such ventures – Opel is awaiting GM's go-ahead – are likely to benefit from the grants and subsidies offered to stimulate the eastern economy. Opel has begun assembling its mid-range Vectra model in Eisenach. Priced at DM25,000, it is not cheap by the standards of the lower incomes in Germany's new eastern states; but Opel reckons it will find enough buyers for the 10,000 it will turn out annually.

Even the rustiest old bangers are better than the cars which east Germans used to drive. The Trabant, which carried so many people across the border in the euphoric days when the Wall was breached, is now a non-starter among eastern German consumers. It is, however, still produced for east European markets.

As car penetration levels in eastern Germany approach those in the richer west, new roads will have to be built, more service stations set up, and far more driving licences issued. The infrastructure is years behind that in the west.

Moreover, the coming of the modern automobile will mean severe disruption in industry. At Eisenach, for example, more than 9,000 people were employed to make Wartburg cars, including parts. Far fewer will be needed in the new operation. Some jobs will be absorbed by other operations. BMW is building a new machine tool plant near Eisenach and will draw on available labour. But many will have to look elsewhere for work.

Ultimately, the strength of the car market will depend on the development of the economy, and thus new employment, in eastern Germany. But one thing is sure: there will be no return to the days of the ugly little Trabant with its plastic body and choking exhaust. Germans in the east have developed a taste for style, quality and, their often inadequate roads permitting, speed.

Andrew Fisher

Those thin concrete ribbons may be quaint...

A trip back in time

Traffic stops altogether on the Leipzig to Dresden autobahn

OLD black-and-white films show smiling motorists a few generations ago, always wearing a coat and tie. Usually they wave to the camera before clambering into their narrow-bodied automobiles to drive away into the countryside over thin concrete ribbons.

East Germany's boxy Trabant cars resemble your basic car from the past. The narrow concrete ribbons are also still there. Driving along Autobahns in eastern Germany at the maximum 100 km/h is akin to a trip back in time.

For today's drivers from the west, the narrow roads without any shoulders or guard-rails do not qualify as safe highways. Almost all east Germany's road network is in dire need of modernisation. This is where, up to now anyway, public funds come in.

"Just to make necessary improvements to get the roads up to west German standards will cost us DM100bn over the next 10 years," says Ms Gabriele Grimm, of Germany's transport ministry.

West Germany has actually paid more than DM8.5bn to the German Democratic Republic since 1972 to use the three official "transit Autobahns" to west Berlin. But very little of that went to maintain the roads in eastern Germany. Of the DM860m paid by west Germany last year for transit fees for 1990, accountants recently discovered only DM95m was actually spent on roads. The rest was funnelled for general spending, says Ms Grimm.

A preliminary survey of the GDR road network showed 55 per cent of the Autobahns are in "catastrophic condition", Ms Grimm says. The deficiencies range from potholes in the Autobahn to bad asphalt "which doesn't meet our standard at all", she says.

In addition, the survey showed 68 per cent of east Germany's city streets need repaving. In bigger cities such as Leipzig and Eisenach, the brick-paved and cobblestoned streets may look romantic to the tourist. But potholes and the bumpy road surface serve as a test for a modern sedan's suspension system.

The road survey also showed two-fifths of eastern Germany's country roads need improving; and 22 per cent of the two-lane national road network must be repaved. No fewer than 30,000 bridges in eastern Germany urgently require attention.

With those kind of bills, the finance ministry has suggested private funds might be established to invest in road building, apartments and telecommunications. Publicly-financed services could also increase user fees to help pay for themselves. Toll roads built by private investors could ease the financial crunch of rebuilding east Germany's infrastructure. A US group has suggested building a privately-financed motorway between Dresden and Görlitz in the south-east. The transport ministry will give a decision on this next year.

Dennis Phillips

SMALL BUSINESS

Adapting fast and joyously

WEDNSDAY October 3 was a norm working day at the Gersöe printing concern. Well, lmost normal.

Whe thousands of Leipzigers cowded on to the streets for t unification holiday, Mr and frs Gersöne were catching p on customer orders. But as participants in last yea's peaceful Monday marhes that spawned the bewldering changes in East Genany, the couple, in their eay 50s, are far from untuched by the drama of the revlution. Wholeheartedly emracing the new environment – "Unity cannot come qickly enough," says Mrs Gersne, in marked contrast to many of her more fearful fiends – they are full of hope s they plot the regeneration of ie old family business in the re-war printing capital of Germany.

'The machinery used to seize up at about 2 deg C'

A printer of office and personal stationery, Mr Gersöne operates the business started by his grandfather in 1934. Until now functioning with a Heidelberg letterpress dating from that year, the overnight arrival of the social market economy for him takes the concrete form of an Apple Macintosh desk top publishing system, laser printer and three tonnes of new equipment from Heidelberg, the west German firm.

His wife, expressing the genuine (if not yet very capitalist sounding) motivation behind the steady stream of 15-hour working days the new conditions demand from both of them, explains: "We owe it to my husband's father, who struggled on crutches up these three flights of stairs every day until his 79th birthday. All that effort cannot have been for nothing."

Previously working in a leaking, unheated loft ("the machinery seized up at about 2 deg C"), the Gersönes struggled to produce to their satisfaction for some 100 clients, who included the Leipziger Volkszeitung, the local newspaper created following the 1848 revolution; and the Bibliographisches Institut, publishers of the Duden dictionary. In a climate in which virtually every new order had to be officially registered (Department of Printing Approval), their style was also cramped by the stipulation that wood-free paper could be used only for export materials.

Needless to say, that included materials for the Leipzig Messe, the trade fair that twice a year paraded the communist eastern Europe's finest wares.

Nor was there any incentive to hire the eight other assistants officially tolerated per private business under the old regime. The couple could easily generate by themselves the meagre East Marks 1,500 monthly profit allowed – to make any extra was pointless taxed as it was at more than 9 per cent.

Now the leaking loft is bein fixed, a wall will come out the new Heidelberg is swung by crane, and three new st have been hired. Two m will be added later in the y to help Mr Gersöne, who i trained printer.

But it is the diminutive ceaselessly voluble Mrs söne who runs the comp. "My husband has no idea is in the files, whether we money or not. All he kn that we have a lot of del less than 12 months, sl had to master everythin 50 years of western p technology developme discounted cash flows.

The DM350,000 7.5 per cent 10-year loan arranged the Bayerische Vereinsba (BV, the biggest Bavarian ional bank that has expar fast into the southern part of th old East Germany) still mak her eyes roll. The comma economy did not operate this sort of leverage, and it w clearly no easy task to c vince her husband to make a leap. "We have to be preped to take risks. Too many of y colleagues will not – they re too used to doing what the state tells them," she obses.

The Gersönes have acted fast. "In January we ad approached the Staatsbank (state banking monopoly or a credit that would not even have covered the smallest printing press." Nothin came of that application away, leaving her free to pu the recommendation her son-in-law, a satisfied Munich customer of BV of me 15 years' standing.

Typical of the west banks in virtually pioneer rritory, BV was needed t provide much more than it standard service. Dealing wi customers who are unfar iar with everything from ue added tax onwards, ba ers have necessarily turned om stingy credit officers pick g holes in five-year plans to nerous and patient advisers ao become more or less fa ly friends. While the clued Mrs Gersöne needed le help than many – indeed s became the source of vital basic information for BV in early Leipzig weeks – the sh flow plan projections c e from the bank. Previsly having achieved an anual turnover of East Marks 600, Mrs Gersöne says she was unned when a sales figure f 1991 – with the new equiyent – was suggested the region of DM390,000.

However roadly on the basis of hi not her, figures, the DM350, loan was agreed. This repres ts almost the full cost of the uipment, as virtually all t family's savings was spent keeping afloat in the diffic months before currency un – a period when tradition clients were far too worried bout their future prospec to pay their printing bills.

Meanwhile, for the bank, lackin balance sheets and other ailiar tools documenting a npany's past, personal impre ons count for a lot.

'So many are usd to doing what the state tells them'

Evoce of strong motivation is e principal security – toner with a lien on the new Halberg.

w Mrs Gersöne has conved herself that the ambits sales target is attainable even in August, with the old chinery and the rest of east rman industry in chaos, the m managed sales worth M30,000. Estimates of profitility are of course trickier, ith costs soaring after currency union – rent up fourold, with further increases expected, electricity three times more expensive, and so on. The pre-July tariff – 100 visiting cards for East Marks 9.50 for instance – will have to be drastically altered.

Quizzed as to how competitive the firm can be in the stern new environment, Mrs Gersöne places her faith firmly in "the new technology". Marketing, a concept entirely foreign throughout the planned economy, is not something she has devoted much thought to, either. But with plans to operate largely within Leipzig, the word-of-mouth principle is likely to serve the gregarious businesswoman well enough. Her more lackadaisical colleagues, floundering in the new world, "already assume the Gersönes will print for the whole of Leipzig", she remarks, still faintly puzzled as to why others have not been so quick off the mark.

Katherine Campbell

The debate over European monetary union centres around the Bundesbank, **David Marsh** outlines the central bank's view

A war of monetary nerves

THE BUNDESBANK this year has received a rude shock and an extension of its role. It is shaping up for an even bigger challenge – over the future of European money.

The shock came in February when Mr Karl Otto Pöhl, the president, learnt that Chancellor Kohl had changed his mind within 24 hours and decided to go full speed ahead towards German monetary union (GMU). The extension came on July 1 when the D-Mark was introduced into east Germany – a foretaste of political union which came on October 3.

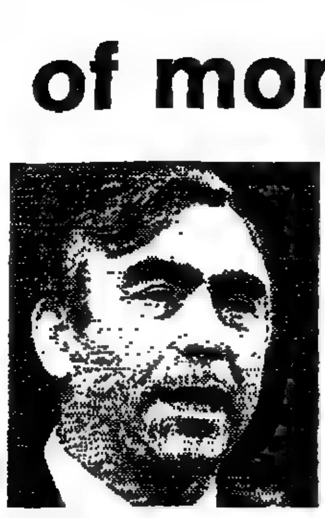
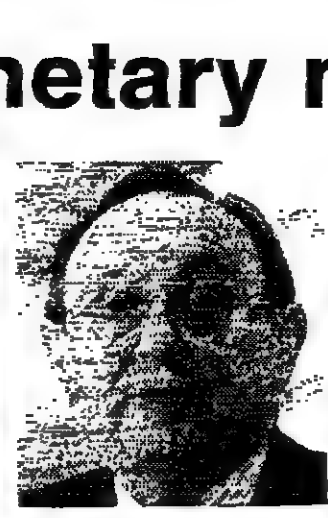
The challenge centres on the war of nerves over European Monetary Union (Emu). Having been taken by surprise over German monetary union, the Bundesbank is warning that it will not be pushed into a corner in the horse-trading over the inter-governmental conference on Emu which starts in Rome at the end of the year.

The central bank's basic stance on Emu has been as outlined by Mr Pöhl for several years. The bank is not willing to see a new system set up which is less stable than the D-Mark-anchored European Monetary System, *de facto* operated by the Bundesbank.

Now that Emu negotiations are within range, the Bundesbank is making sure that its voice is heard at the highest political level. The bank's policy-making council unveiled on September 19 a lengthy document setting out a series of tough conditions for the path towards a single currency and European central bank.

The mooted central bank must be built on German-style criteria: independence and anti-inflation commitment. No timetable should be set up for the route to full Emu. Much greater strides should be made towards economic convergence before institutional changes in the European central bank structure can be considered. For example, just one of the Bundesbank's conditions for the "final stage" of Emu – the move to irrevocably set exchange rates – *is that* "inflation has been very largely eliminated in all countries".

Mindful of its reputation as the guardian of German money – and of the political turbulence caused in the past when principles of monetary soundness have been disregarded – the Bundesbank does not hesitate to take an almost apocalyptic line. "An early irrevocable fixing of exchange rates *and the transfer of monetary* policy powers to Community institutions would involve considerable risks to monetary stability, especially for the Federal Republic of Germany," said last month's document.


Discussing the future of European money; Pöhl (far left): who is taking a firm stance has the support of finance minister Waigel (left) which has annoyed foreign minister Hans-Dietrich Genscher (right), Tietmeyer (far right) is emerging as a pivotal figure

In his campaign to preserve the sanctity of the D-Mark, Mr Pöhl believes that the desire of the populace for monetary stability will take precedence over Bonn's political need (above all, with France in mind) to press ahead with European monetary integration. As he put it succinctly last month: "I cannot imagine that the government will agree compromises which the Bundesbank believes to be wrong."

Some of Germany's EC partners have tried to use German monetary union as a device to accelerate Bonn's policies on Emu. If currency union can be put into action between two such diverse economies as those in the capitalist and communist halves of Germany, so the argument goes, then it should be possible between Germany and the rest of Europe – in spite of existing economic differences.

The unspoken stance of France or Italy is that other countries are tired of a European currency policy run by the Bundesbank; the new system must force the Bundesbank to give up power.

The German central bank turns this argument on its head. The Bundesbank ripostes that GMU only made sense as the first step towards full political union. It points out that European political union is still a cloudy notion.

The Bundesbank underlines – with a hint of "I told you so" smugness – the social and economic dislocation caused by the welding together of east and west Germany. This starkly demonstrates, the bank says, the costs of merging currencies between regions of economic disparity before they have had time to converge. The bank's document last month says that, because of the economic challenge of unification, Germany will not be ready to enter into any further commitments on Emu until the "substantial transitional problems" of German unification are on the way to solution. At the earliest, the bank believes that this will be around 1993.

The opposing arguments about the links between GMU and Emu will rumble on. The French government is particularly irked that, having extracted a promise from Mr Kohl in April to step up European integration as a condition for German reunification, Bonn seems to be backtracking.

Mr Theo Waigel, the finance minister, has given Mr Pöhl full backing in the bid to prevent agreement on any firm Emu timetable. This is much to the annoyance of Mr Hans-Dietrich Genscher, the foreign minister, who wants to press ahead with Emu much faster.

Mr Hans Tietmeyer, a member of Mr Kohl's Christian Democrats, and the former state secretary at the finance ministry, moved to the Bundesbank at the beginning of the year but was brought in during the spring as the chancellor's personal negotiator over GMU.

At the Bundesbank, Mr Tietmeyer drew up the document on Emu released last month, based on lengthy discussions in the central bank's council. He is playing a leading role in the discussions in Basle about the future statute of a European central bank and will be a pivotal figure.

Britain's full membership of the EMS may give Germany a secret ally in the EC to slow down far-reaching commitments to Emu. Entry of sterling to the exchange rate mechanism adds to potential EMS tensions, and is likely to complicate the Rome inter-governmental conference. The Bundesbank's plan is clearly to continue saying "Yes" to the eventual goal of Emu but to hedge with an increasing number of "Buts".

The aim is to keep the D-Mark reasonably strong to dampen inflation risks as east German economic restructuring continues. Whether the government and Bundesbank like to admit it or not, Emu is taking a back seat.

The financial community is facing the chill winds of increased competition after 1992

Foreign expansion strategy under scrutiny

THERE is a palpable feeling of self-satisfaction suffusing the German financial community. As strains in both the US and Japanese financial systems take their toll on the respective domestic institutions, Germany's banks and insurance companies, protected from the more creative financing vehicles largely by virtue of stiffer regulations, look soundly capitalised and relatively profitable.

But, however pleased they may be that they did not indulge in, for example, the leveraged buy-out and junk bond excesses of the 1980's, domestic banks and insurers will not be immune from the chill winds of competition, as EC single market legislation begins to bite.

Furthermore, in spite of a brisk start, unadulterated success for the western pioneers in east Germany is by no means assured. One obvious effect of a more competitive market at home is accelerated expansion abroad. Some of the moves made by top German names in the last 12 months have served as a reminder that this route is no immediate panacea.

Allianz, the country's biggest insurer which has been looking for a suitable prey in the US market for years, took the plunge in August with the $3.3bn acquisition of Fireman's Fund, a company best known for its problematic past. Too big to grow at home, most of Allianz's new revenue sources are foreign, with the hitherto dependable west German market contributing well under half of group premiums.

Consequently, the Munich insurer's earnings quality, exposed to the notoriously volatile US insurance business, could fall off quite sharply – even without taking into account the probable future earnings pressure arising from Brussels' efforts to prize open the lucrative and tightly-knit west German hinterland.

The financial scale of the US purchase has touched even the mighty Allianz, as the recent DM1.35bn rights issue into a weakened stock market demonstrated.

Another important test of German institutions' ability to continue growing abroad will be how well Deutsche Bank manages the integration of Morgan Grenfell, the UK merchant bank. Germany's leading bank professes to be unconcerned about this year's likely dip in earnings at its purchase – the latter blamed on the cyclical nature of the mergers and acquisitions game. And too little has happened in the public domain since the purchase last December to warrant predictions as to how the two opposing cultures will blend. This is an experiment being tried, on far less grand a scale, by West LB, the Düsseldorf public sector bank that is co-operating with Standard Chartered.

Dresdner, the country's second largest bank, is understood to be interested in a British merchant bank, if it can find one. Meanwhile, at home, the domestic savings market has been considerably shaken up by *Allfinanz* developments, or the fashion for one-stop financial shopping.

As a response to years of encroachment on their cheap funding base by insurance companies syphoning off retail savings, many of the banks were forced either to team up with insurers for cross marketing exercises or to set up their own independent insurance subsidiaries.

Bayerische Vereinsbank in Leipzig on currency union day

Some of these initiatives have made a promising start but analysts believe it will be some considerable time before the new ventures make a sizeable impact on profitability.

The spectre of legalised money funds in Germany – long-mooted and now increasingly likely – could reek even more profound changes for the big institutions who could see their savings base eroded virtually overnight as funds flow to high yielding alternatives.

Still, 1990 at least is expected to be another good year for the big private banks, in places thanks to some new revenue sources. Analysts think, for example, that Deutsche Bank has done particularly well in derivative products, including tailor-made over-the-counter instruments where margins can be lucrative. Against this has to be set the very considerable software and other investment costs of the DTB, the options exchange introduced at the beginning of the year that spurred the surge in derivatives market activity.

Mr Stephen Lewis, banking analyst at Salomon, expects partial operating profits at Deutsche to reach about DM4.37bn (a 13 per cent increase), but adds that trading profits are being hurt by market conditions, particularly in equities, necessitating write downs at the end of August totally DM400m.

At Dresdner, by contrast, partial operating profits for the first half grew just 1.8 per cent, with commission earnings only up by the same percentage. In this light the underlying full year results could, with the burden of east Germany, be a fraction lower than last year, before counting the first-time consolidation of Banque Internationale de Placement, the French bank.

Commerzbank is expected to improve considerably on last year's dull performance. Interest margins have now stabilised, expenditure in the east has been modest as it did not get a crack at the Staatsbank (state bank) network, and a higher dividend is virtually assured. However, an upset in the familiar pecking order of the big three banks was caused earlier in the year when Bayerische Vereinsbank, the Bavarian bank, increased to a majority its holding in Hamburg's Vereins-und Westbank.

On a consolidated basis its balance sheet is bigger than that of Commerzbank, traditionally the number three German bank.

The configuration is "certainly a new force to be reckoned with" according to Mr Thomas Albrecht, banking analyst at UBS Phillips & Drew, who points out that on a simple measure of the ratio of operating profit to total costs, BV's profitability is close to that of Deutsche, with Commerzbank lagging very considerably behind. But the two regional banks do not make a nation-wide network and it remains to be seen how the integration process develops.

East Germany, meanwhile, if a strategic headache, has proved a welcome quasi-expansion to the cramped domestic market. The strategy of Deutsche and Dresdner in capitalising on the old network to attain maximum presence as early as possible appears to have paid dividends.

As in the insurance sector, where Allianz bought a majority share in the former state monopoly, the biggest will get bigger – although most banks hope to increase their market share by virtue of the relative weakness of the savings bank sector in the east.

While the investment costs for the most ambitious enterprises will be vast – Deutsche has put almost DM1bn in capital alone into its new eastern joint venture – high levels of initial business mean that break even points, on an operating basis, will be reached much sooner than expected.

Deutsche says that if it has accumulated balance sheet footings of DM20bn by the end of the year it will be in the black. By this measure, which is no mean achievement considering staff costs alone run to DM150m for the period.

The principal unknown is the credit quality of the assets they will collect over coming months and years. Until now, most loans have carried a state-guarantee. Advancing credits at the banks' own risk will be a vastly slower and more painstaking business, and a good deal dependant on the recovery powers of the collapsed eastern economy.

Katharine Campbell

Banking opportunities in the east

A market for the bold and the brave

FROM A prefabricated building planted in one of Leipzig's municipal car parks Mr Reinhold Mayer enthusiastically recalls the frenetic activity on Sunday, July 1 when the D-Mark came east and his staff, some two days out of college, worked from 6am through to 11.30pm, paying out crisp new notes to all-comers.

Clad in ebullient green jacket and colour-co-ordinated spectacles, Mr Mayer, branch manager in Leipzig for the biggest Bavarian bank, Bayerische Vereinsbank, is still wide-eyed at the quite different mores in the east.

"We advanced a car loan to a man who subsequently lost his job. He paid us back immediately – trawling his friends for the money," he observes. "I hope it stays that way."

The west German banks in general are pleased with their move east. It is providing strategic problems as the timetable for economic and political union shortened before their planning committees, it has also proved an exciting diversion from the overbanked domestic market.

In an atmosphere when industry was blenching at involvement with the crumbling economy, it has fallen on the bankers to teach the basics of capitalism to the isolated and sheltered east Germans.

The banks have found their feet considerably faster than expected – though they remain far too dependent on the speed and extent of the revival of the eastern states' economy for any reliable estimates of profitability to be made at this stage.

As recently as April, when a law was passed reforming the old east German banking monopoly, western institutions, then operating exclusively out of hotel rooms, had little idea when they would be able to open branches. Roughly a month later, they could be more or less sure that business would commence on July 1. From that moment on, the relics of the communist banking system became a threatened species.

Meanwhile, it quickly became clear that, with market share to be captured in the early months, the boldest (and richest) would win.

Consequently Deutsche Bank, and to a lesser extent Dresdner Bank, muscled their way into the newly created Deutsche Kreditbank, the commercial banking arm of the old state monolith. Kreditbank, correctly assessing its own prospects as dim, was above all concerned with the welfare of its vast staff.

In exchange for a ready-made network and a virtual initial monopoly on corporate clients, Deutsche and Dresdner took on respectively 8,500 and 3,500 of the former state employees, the bulk of them women.

For many of the other banks, the complete dearth of suitable office space meant swapping hotel rooms for buses and prefabs. Even installing prefabs was tricky: a Commerzbank official recalls the battle with the Leipzig authorities to set up their own two-storey building because of complaints at the "appearance" of one already established across the hardly prepossessing parking lot.

Meanwhile, there is a large task in renovating the old state bank premises. Deutsche Bank is peeling off the Staatsbank signs to uncover its own pre-war logo on buildings that do not look as if they have been attended to since. And conditions are cramped even in the windy marble-portalled premises of the Kreditbank – Dresdner Bank and the regional office of the Bundesbank (central bank) are for instance confusingly sharing the same premises, including entrance, in the centre of Leipzig.

Personnel management is another large challenge. Western staff often live in poor hotels or rent a room from struggling east German families, and put in some 14 hours a day.

"This is a major concern of ours," says Mr Dietrich Köllhofer, a managing board director of Bayerische Vereinsbank. "While we have been surprised at the general willingness to make sacrifices, we know at least some of our staff, separated from their families, will want to come back. We hope to achieve a smooth overlap with east Germans we are training up."

Many, particularly the younger officers with vastly greater exposure than they could hope for in the west, are infectiously excited at operating in an environment where they see a single bank credit saving hundreds of jobs.

Deutsche Bank, by contrast, has expanded staff on the parent bank's payroll by 20 per cent with virtually unskilled labour – the state bank handled no private customers at all, and the regimented dealings on the corporate side bore no relation to western-style banking.

As well as retraining its new employees it has the far more delicate task of persuading them that their jobs are secure – if indeed that is the case – in what are grossly overmanned conditions.

Still, the kind of *entrée* secured by the two biggest banks has irritated their competitors.

Mr Walter Seipp, chief executive of Commerzbank, lashed out angrily in July at the competitive distortions: "We come as a complete newcomer. There have been cases where companies have been threatened with having their credits terminated if they go to another bank," he alleged.

Only his intervention, he said, had ensured that other banks were included in the short-term state-guaranteed liquidity credits that have constituted the bulk of the lending business since currency union.

All the banks are operating almost in the dark when it comes to non-guaranteed loans, particularly to the big companies. The first balance sheets are only now being laboriously assembled, and information from the Treuhand has hitherto been completely inadequate.

Small business start-ups have been easier to deal with – Mr Mayer says that between 50 and 75 per cent of applications have been approved, although he adds that in coming months, where the recently unemployed *are turning to a* new business as other avenues close, the bank may be more chary.

While the credits are themselves often for enterprises no bank would finance in the west – such as a caravan selling snacks, not a hopeless venture in this undercatered area – much is controlled from head office.

"I have a quarter of the competence I had before," says Mr Mayer.

Katharine Campbell
Frankfurt

PROFILE: Klaus Töpfer

A time for action

ONE way that Mr Klaus Töpfer, the German Environment Minister, can measure his ministerial efforts is to glance at companies' promotional campaigns. "Look at the advertisements," he says. "Oko, Bio, Natur - they're the best marketing arguments."

The propensity of German business to use environment-friendliness as a gateway to consumers' hearts is just one sign of the interplay between the economy and the ecology.

Mr Töpfer, a compact Christian Democrat professor from Silesia who mixes quiet authority with the appropriate dose of good humour, is at the centre of a cluster of competing interests. He has to fulfill the requirements of protecting nature and at least half-way satisfying German Greens. And he must struggle to avoid the alienation of German industrialists, on whose co-operation he depends. Asked if he is reasonably pleased with his work since he took over the job in May 1987, he says: "An Environment Minister in a thickly populated industrial country should never be satisfied – and can never be."

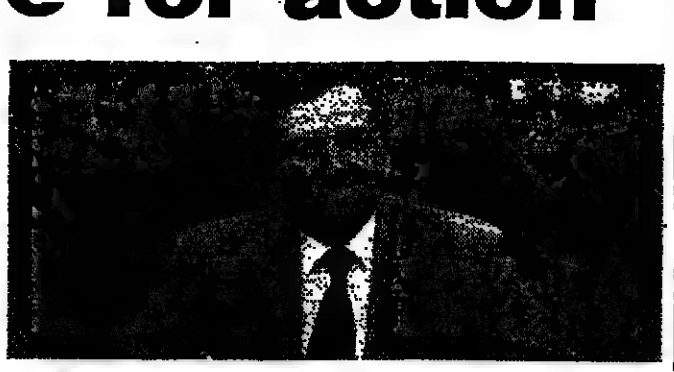
Mr Töpfer's weight in the Bonn cabinet seems, however, to have grown lately. He is pleased that other ministries ranging from Development to Education are now building in environmental programmes as a matter of course.

In June he pushed through government agreement – against some misgivings from the Economics Ministry – to bring in a "carbon tax" on energy as part of a drive to reduce Germany's per head output of carbon dioxide by 25 per cent by the year 2005. At present, Germany's rate of annual emission of the gas – blamed for the greenhouse effect – is one of the world's highest: 11 tonnes a head for west Germany, 22 tonnes (the world record) for the east.

"This is one area where we very well know that our job is not to criticise others, but to act," Mr Töpfer says. A detailed plan is due to be unveiled next month.

He points to a string of legislative initiatives to create what he calls "a better safety culture" in industry, as well as more stringent measures to improve air and water pollution and to cut waste.

Mr Töpfer confides that, in his daily postbag, ozone depletion has been replaced as the main focus of citizens' concern by complaints about packing material and other dregs of the "throw away society".



Klaus Töpfer: putting together a DM300m "action programme"

Mr Töpfer has to push forward within the EC the goal of harmonising environmental regulations. This is not so much in the interest of international understanding, but far more to prevent the drift of corporate investment to less stringently policed areas. After a long-standing row within the Community over German proposals to use differential taxation to encourage catalytic converters in cars, most EC environment ministers now seem to favour this approach.

Concerning the use of incentives to boost environment-friendly technology, Mr Töpfer says that at the EC environment ministers' meeting in Rome last month, "We were all of one opinion. This sort of tax measure is finding more and more support."

Mr Töpfer points out that the Europe of the Twelve represents just one part of the overall "European environmental community". As a result of the breaking down of east-west barriers, the EC has a real chance of helping to patch up what he calls the "ecological ruins" in the east.

Since October 3, Mr Töpfer himself has been responsible for a number of these ruins. German unity brings "qualitatively and quantitatively a new dimension," says Mr Töpfer; "We have to deal with the terrible legacy of socialism. This was ruthless exploitation of health and nature."

Mr Töpfer's Ministry is putting together a DM300m "action programme" for the rest of the year to tackle some of the most pressing environmental tasks in east Germany. He says one of the most important areas concerns the cleaning up of industrial sites in east Germany. Another headache comes from polluting lignite-fired power stations.

Other priorities are establishment of up-to-date water treatment and sewage facilities, and provision of district heating to compensate for the closure of the Greifswald nuclear power complex on the north coast, and cleaning up the environmental wreckage left by the Wismuth uranium mining complex in the Erzgebirge in the south. To try to put east German pollution control on to a longer term basis, money will also go towards improving measurement and control technology.

The overall effort will cost many billions of D-Marks. Mr Töpfer sees the eastwards extension of west German environmental consciousness, however, as an asset. Improving east German nuclear safety standards (which in practice will almost certainly mean closing down the whole east German nuclear industry) is a "gain for the whole of Europe", he says. "We have to eliminate the gap in environmental standards as soon as possible. We reckon we can do this by the end of the century."

Mr Töpfer's overall credo of an "integrated environmental policy" has been strengthened by discovery of the full ecological mess in east Germany. "We have always said, and it has been confirmed, that a demanding, but steady environmental policy does not harm the economy, but stimulates technological progress. It is not a Job-Killer but Job-Knüller (Job-exploder)," Mr Töpfer says. "The older the capital stock in industry, the worse will be not only the economic but also the ecological effects."

He admits that, in west Germany, the full test of environmental policy resolve will come during a time of economic downturn rather than, as now, when the economy has been on an upwards path for eight years. But he adds: "What has not been put into effect during a time of economic growth will be much more difficult later."

David Marsh

The old traffic in refuse is proving an expensive mistake, writes **Günter Kowa**

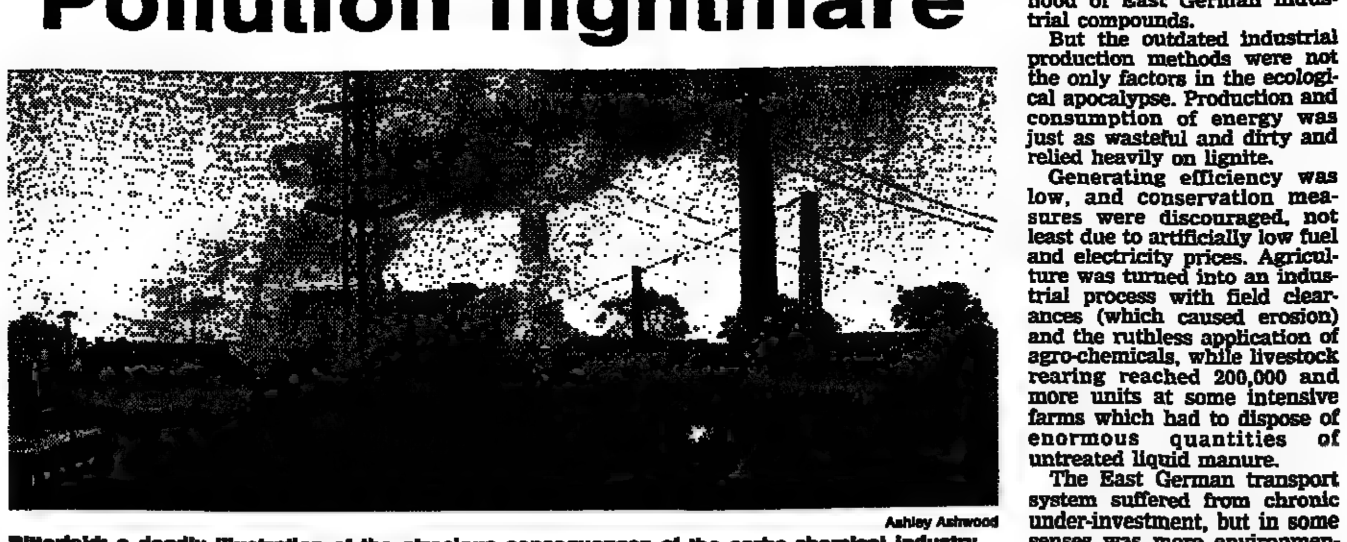
Pollution nightmare

ONLY one thing ever passed freely across the iron curtain: pollution. The West Germans used to have a precise indicator in the river Elbe which originates in the east and flows into the Baltic Sea near Hamburg. Scientists were taking samples which showed near lethal levels of cadmium, mercury and other heavy metals, as well as massive residues of fertilisers and pesticides. A concerted clean-up programme along West German rivers had managed to raise standards over the years, but the Elbe remained to all intents and purposes a "dead" river, and there was nothing the West Germans could do about it.

Ironically, though, for many years they themselves contributed to the environmental disaster taking shape in the east, and which is only now coming to light.

Since the early 1970s, West Berlin and other cities signed contracts to transfer refuse to East German dumps, 5m tons annually, of which highly toxic substances accounted for 685,000 tons. The deal was as lucrative for the East German authorities, earning about DM1bn per year, as it was convenient for those in the West, removing an obnoxious problem from sight. As none of the dumps had any environmental safeguards to speak of, the West German refuse deals are now proving a costly chicken coming home to roost.

The accumulated burden of 40 years of environmental laissez-faire is part of the mortgaged inheritance which the German economy is taking on after reunification. The depressing east German environmental record will require *not only huge investments on* all sectors – figures between DM38bn and 47bn per year over 10 years have been suggested – but will bring with them high social costs as factories are closed and industries restructured for environmental reasons alone.



Ashley Ashwood

Bitterfeld: a deadly illustration of the atrocious consequences of the carbo-chemical industry

East Germany's environmental malaise is bound up closely with economic history. Near total isolation led to industrial developments completely at odds with progress in the west. The most significant distortions occured in the chemical industry. Western style petrochemical production could never establish itself in the east due to the prohibitive costs of oil imports: production of plastics, tar and even petrol was instead based on the processing of coal, in particular lignite, which was quarried in huge open cast mines. Not only did this lead to the destruction of wide areas of countryside, but the industrial processing was in itself wasteful and inef*ficient due to hopelessly out*dated machinery, which instead of being written off and renewed was kept going by constant repair, which tied up a large part of the workforce.

The chemical industry was concentrated in the south in the region between Halle and Leipzig, which contributed more than 60 per cent of the total East German emissions of 5.2m tons of sulphur dioxide and 53 per cent of of 2.1m tons of dust (1988 figures). The atrocious consequences of the carbo-chemical industry are plain to see at Bitterfeld, which has been called the most deadly place in Europe. In some plants working conditions were so unhealthy that production has now been halted, saving emissions of 300 tons of fluoride, 4,800 tons of carbon monoxide and 500 tons of dust annually at one aluminium plant alone, and more than 7,500 tons of sulphurous emissions at a viscose plant, built in the 1930's. At Buna, most of the carbide *furnaces are now shut down*, eliminating massive dust and sulphur dioxide emissions.

This is the beginning of the end of east German carbide production, which was further processed into acetyl as a prerequisite for plastics. The carbide furnaces consumed no less than 12 per cent (35m tons) of the lignite mined in the open cast mines.

With the demise of the old power structure, previously top secret files on environmental matters became public knowledge. Indeed, such studies have begun to chart the mounting ecological pressure since the 1950s but had been hushed up. In the early 1980s Erich Honecker was reported in the East German press as having remarked: "There is no such thing as acid rain in the German Democratic Republic."

Now it has become possible for scientists from east and west to meet and exchange data, as for example in a recent symposium organised jointly *by the universities of Heidel*berg and Jena. The phenomenon of "Waldsterben", the gradual destruction of forests, was discussed by biologists long before it was a serious problem in the west – not least because high contamination in soils and plants had already turned forests into moonscapes in the neighbourhood of East German industrial compounds.

But the outdated industrial production methods were not the only factors in the ecological apocalypse. Production and consumption of energy was just as wasteful and dirty and relied heavily on lignite.

Generating efficiency was low, and conservation measures were discouraged, not least due to artificially low fuel and electricity prices. Agriculture was turned into an industrial process with field clearances (which caused erosion) and the ruthless application of agro-chemicals, while livestock rearing reached 200,000 and more units at some intensive farms which had to dispose of enormous quantities of untreated liquid manure.

The East German transport system suffered from chronic under-investment, but in some senses was more environmentally sound than in the west. The rail network was closely knit and carried four fifths of goods transported, albeit at a snail pace. The railways and other forms of public transport accounted for more than 40 per cent of passenger journeys, against 18 per cent in West Germany. East German cars were notorious pollutants – especially in lead emissions – and the factories which produced them are being closed.

With the arrival of western life styles comes a refuse mountain which is far bigger than that which used to be imported, and for which proper deposits and treatment plants are simply not available. The previously efficient system of recycling what used to be *called "secondary raw materi*als" has ground to a halt. East Germans have shed their ingrained habit of preserving every remotely useable object – and are adopting a throw-away mentality which the west is only just beginning to learn to overcome.

PROFILE: Davy McKee

Clean-up specialists

ALL THAT dirty air hanging over east Germany's cities should mean a bright future for Davy McKee and its environmental clean-up processes.

But it is expected to take a few years for both industry and governments to gather the money necessary to pay for cleaner air and water. So Davy McKee and the other German subsidiaries of Britain's Davy Corporation are finding new ways to sell their equipment and processes in eastern Europe. Whether introducing western investors to eastern producers, or setting up a joint venture with an east German engineering firm, the Frankfurt-based operations are helping open doors in new markets.

Unfortunately, the five flue gas desulphurisation plants it has built in west Germany have so far produced almost as much red ink as sulphur. Its most recent flue gas desulphurisation project for a power plant at East Berlin-Rummelsburg was finally turned over this June, 15 months behind schedule and also in the red, says Mr Klaus Comperl.

As chief executive of the German operations of Davy McKee, Mr Comperl sees great promise for the environmental process. That is despite the £27m loss on a £150m contract for another of its desulphurisation plants at west Germany's Buschhaus power station. It was commissioned in June 1987, a year behind schedule.

"We can make money building these plants, as we now know what to do," insists Mr Comperl. But other Davy executives, who he sees at monthly board meetings in London, seem less than convinced. "They say 'Gee, didn't you lose enough already?'," admits Mr Comperl. The Buschhaus project was priced too low because Davy McKee did not expect some of the difficulties it encountered, he says. The Wellmann-Lord process that Davy McKee uses was developed to obtain sulphur rather than clean up exhaust gases from power stations.

The giant desulphurisation plants, larger than the power stations, cost 20 per cent more initially than a competing gypsum-based process.

Mr Klaus Comperl

The major problem with the latter is what to do with the excess gypsum waste. West Germany already deposits tons in landfills every year. When such disposal costs are considered, then Davy McKee's process is more economical, claims Mr Comperl.

While west German utilities are acquiring most of the east German power stations, it is uncertain if they will retrofit the coal-burning plants to meet stricter clean air standards. It may be cheaper to close the power stations and transmit electricity from west Germany.

Another subsidiary, Davy Bamag, also hopes to help clean up in eastern Europe. It specialises in waste water treatment plants for cities as well as the steel and chemical industries. As with the power plants in eastern Europe, these state-owned operations will require public financing.

The expected boom in orders for such environmental clean-up measures will not happen in the next year, predicts Mr Comperl. "First people have to start making money. Then they can invest in the environment," he reasons.

But Davy has a number of other businesses in Germany with eastern Europe clients. First and foremost are the many synthetic fibre plants built by Zimmer. Most of the estimated DM300m turnover for Davy's German operations in 1990-91 (to March 31) will be from Zimmer's polyester and fibre projects. While its German sales total only about 8 per cent of Davy's projected group turnover of £1.8bn for 1990-91, that is 50 per cent more than in 1989-90.

The new economic situation in eastern Europe will require new investments, reasons Mr Comperl. In July a DM65m contract was signed for a new polymer fibre plant in Czechoslovakia.

East Germany, where Zimmer built most of the man-made fibre plants more than 15 years ago, is different. Little has changed since then, as the east Germans did not have the money for newer technology. To win orders there now, Mr Comperl's salesmen serve as middlemen, bringing potential western partners together with the fibre producers.

Nothing will happen before the first quarter of 1991, predicts Mr Comperl. The east German factories first need accountants to establish a balance sheet. Legislation to clarify who owns what is also urgently needed.

There are about five man-made fibre plants in east Germany which could be modernised, suggests Mr Comperl. It would cost between DM30m and DM100m a plant, depending on the final product. "If you want very fine filaments, such as for ladies' stockings, then you need a lot more machinery than for tyre cord," Mr Comperl explains.

Another means of easing into the new markets is to join forces with an east German company. Davy McKee signed a letter of intent to co-operate with a Leipzig engineering firm, the former VEB Ingenieurbetrieb Anlagenbau. Not only do the east Germans have qualified engineers: they also have good client relations with major customers such as the east German chemical industry. Either a licensing agreement or joint venture could grow out of the initial contract. But one thing is certain: "Compensation trade is all over now. It's all D-mark," says Mr Comperl.

That alone is enough to make eastern Germany the most interesting of the new markets in eastern Europe.

Dennis Phillips

The railway yards in Leipzig

Ashley Ashwood

Deficiencies in the east's infrastructure are acute in transport

Bridging the investment gap

JOINING the two Germanys is easier said than done, both physically and mentally. Unification is only the start.

The task of elevating the eastern part of the country to the living standards of the west is enormous; there is a large gap in living standards and the east's industrial structure has been worn down by years of inflexible central planning. Part of the process will involve a complete overhaul of the infrastructure. It will take a decade or more and cost hundreds of billions of D-Marks.

There are deficiencies in every part of the east's infrastructure – in transport, energy, telecommunications and the environment. Until work gets under way on putting these right, east Germany's 16m people cannot hope to close the gap with the west. But it is not just a question of modernising existing systems. Much of the old must be swept way before the new can be introduced.

That is particularly true in transport, where opening the border a year ago led to immediate changes. Special trains were put on to take east Germans to the previously forbidden west. Hordes of Trabant and Wartburg cars crossed over, as their drivers made use of their new freedom to go where they wished.

But now the jubilation has faded, practical problems have to be dealt with. The railway system taken over from east Germany is out-of-date, overburdened, and unreliable; many of the roads need repair and the motorway network is wholly inadequate; airports are far below the standards of the west, as is the fleet of Interflug, the former East German airline.

In the skies, Lufthansa, now the national carrier for the whole country and not just west Germany, will obviously play the main role. But foreign airlines are keen to become involved, with Berlin to become a big international communications hub. The new capital city will thus require an expensive new airport.

It is on the ground, however, that really big sums will be spent.

The rail and road systems in eastern Germany are estimated to require total investments of at least DM300bn over the next 10 years, a figure roughly split between the two. The funds will mostly have to be found by the government, to a large extent through the capital market, although ways of attracting direct private sector investment are being discussed.

The task of elevating the eastern part of the country to the living standards of the west is enormous

What needs to be done? Repairs must be carried out on eastern Germany's roads – many still surfaced with paving stones which make for a bone-shaking ride – on bridges, railway tracks and stations. But at the same time, plans have to be made for the future.

In the former east Germany, says Mr Eberhard von Koerber, chief executive of the German unit of Asea Brown Boveri (ABB), the Swedish-Swiss engineering group, "we have a unique opportunity to create a forward-looking transport infrastructure. It is an opportunity we must not allow to slip away."

ABB is one of the companies, like Siemens and AEG (part of Daimler-Benz), which hope to benefit from the reshaping of the transport system in Germany's east. A study for the Economics Ministry in Bonn estimated that by 2010, total transport between east and west would show a near sevenfold increase, while that between north and south would go down by 12 per cent.

Passenger traffic between west and east Germany should show an eightfold jump. For freight traffic, the study calculated a tenfold rise.

"We have to think of a joint future – from the Saar (the river bordering on France) to the Oder (next to Poland)," says Mr Peter Waldinger, a manager at the Bundesbahn (the west German railway system) involved in co-operation with the east's Reichsbahn. For a time, the two systems will continue to be run separately to ease the transition.

"It's not just a question of renewing what is there now, but of taking a view on what the market will look like at the end of the century," he adds. In the past, both railways were mainly north-south oriented. Now, the emphasis will also have to be between east and west.

The economically important areas of former east Germany, including Leipzig, Halle, Dresden and Chemnitz, must be linked more effectively with such western regions as North Rhine-Westphalia (including the Ruhr), the Rhine-Main area centred on Frankfurt and southern cities such as Munich, Stuttgart and Nuremberg. Berlin also needs better links with Hamburg and Hanover.

A start has been made on building and improving these connections.

But overcoming the legacy of the old east Berlin regime will be back-breaking. Like much of east German industry, the railways never received enough funds for investment. Their level of electrification was far lower than in west Germany, while much of the system was single track only. Vital maintenance was neglected, so that much of the track, sleepers, bridges and stations is in acute disrepair.

The Reichsbahn was also forced to take on a much heavier freight burden than it could bear.

After the 1970s oil crises, the government decreed that most freight should go by rail, to save on energy. A third of the freight consisted of brown coal, the basis of the country's heavily polluting energy system. The result was that 75 per cent of all goods traffic went by rail against only 22 per cent in west Germany.

That imbalance is being righted as western goods pour into eastern Germany, mostly by road. But the main traffic arteries in the east are quickly becoming congested.

On a bad day, it can take more than eight hours to reach Leipzig, in Saxony, from Frankfurt in the west; normally, it should take five.

The town centre of Magdeburg is a nightmare to drive around, with its rutted streets, tramlines which do not lie flush with the surface and extensive road-up sections with no diversion routes marked.

In time, this will change. It must if the all-German economy is to be a success. But new transport systems cannot be put in overnight. Rebuilding the infrastructure, including road and rail links, will be a monumental task.

Andrew Fisher, Berlin

David Goodhart reports on the Treuhand trust body

Three-way split for the east

THE TREUHAND, the trust body which owns most of the east German corporate sector, is meant to be either privatising, restructuring or closing the companies – nearly 8,000 – in its care. But Mr Detlev Rohwedder, Treuhand chief executive, must sometimes wonder whether it is possible to pursue successfully any of the three options.

● **Privatisation.** There has been some progress, but demand has been weak and where there has been interest it has often been complicated by monopoly problems.

"Price is not the only criterion. We want to establish a proper market structure in east Germany and that means avoiding large German monopolies," says Mr Rohwedder, the 57-year-old boss of investment goods group Hoesch, on loan to the Treuhand from June until December.

He was too late to stop Deutsche Bank and Allianz carving up the banking and insurance sectors, and only slightly modified the takeover of the east German energy sector by the west German utilities. But he has blocked other deals, such as the Tenglemann group's takeover of parts of the east German retail network, and has made it clear that he does not want Lufthansa to take a controlling stake in Interflug, the east German airline.

Altogether, about 100 companies have been privatised and 500 to 600 deals are being negotiated. Mr Jens Odewald, head of retail group Kaufhof, who took over as chairman of the Treuhand's supervisory board in August, says that several big deals with international computer, electronics and insurance groups are on the point of being announced. Both he and Mr Rohwedder are determined to internationalise the sale of east Germany.

Privatisation and new investment are no longer hampered by the commitment to return private property to previous owners, although most public property is out of bounds to investors because the Treuhand and the public authorities have not agreed who has responsibility for what.

There is the problem of how much responsibility for past debts or environmental damage a buyer has to take over. BASF and Daimler have, as a condition of their respective takeovers in east Germany, forced the Bonn government to agree to cover all such costs inherited from the past.

● **Restructuring.** The Treuhand retains ultimate management responsibility for all those companies that have not been sold plus their roughly DM100bn of old debts. It is trying to persuade as many west German managers as possible to help in their restructuring.

In the first three months after monetary union on July 1 the east German economy suffered a circulatory collapse. The consumer goods and investment goods sector were abandoned by many of their once captive customers, the products piled up in the warehouses and nobody paid bills.

The Treuhand had to provide guarantees for DM30bn of liquidity credit. Lacking the time or resources to distinguish between companies that deserved to survive and those that did not, it gave out the guarantees indiscriminately. In the first month 40 per cent of whatever had been asked for was backed by the Treuhand.

By the end of September, companies were once again paying their bills (although much of the wages bill is being paid in Bonn) and banks began to lend at their own risk. The repayment of the liquidity credit has been postponed until March, although many companies will be in no position to pay it back, or the debts they inherited from the old regime.

The Treuhand is trying to sort out the potential survivors. The sorting process should be helped by the publication of D-Mark balance sheets due at the end of October when the Treuhand expects to receive survival plans from 8,000 companies.

Treuhand officials say that they have paid out relatively modest sums to date in restructuring credits, not because there is a shortage of cash but because there have been few practical proposals. Judging by the interest bill of DM8.2bn that the Treuhand expects to pay next year on its own borrowings, it appears to be planning to lend nearly DM100bn in restructuring credits to help surviving companies re-equip. Many of these companies could stay for several years under the control of the Treuhand, which may become a state holding company, akin to Iri in Italy or Ini in Spain.

● **Closures.** Altogether in interest payments and cover for unpaid liquidity credit, the Treuhand is expecting to spend about DM35bn by the end of next year, about DM10bn more than planned. Whether it continues to run over budget depends partly on how quickly the politicians allow it to close about 2,000 companies which have no long-term survival chance.

The Treuhand wants to take a tough line. Privately, officials say that the electronics industry, the shipbuilding industry, the potash and copper industries and much of the chemical industry must close quickly. A "death-list" of 300 companies for immediate closure is said to be circulating inside the Treuhand, although it seems unlikely that much will be done before the December 2 election.

But the Treuhand remains hampered in carrying out its three main tasks by a severe lack of qualified people and a severe credibility problem. Its standing in both parts of Germany remains low, partly because between its formation in February and its "westernisation" in June it was run by old communists who had little interest in privatisation except when that involved selling things to their cronies.

Until recently, such people still dominated the regional offices of the Treuhand. Mr Rohwedder has now swept them out and installed Mrs Birgit Breuel, former finance minister in Lower Saxony, as head of the regions. She in turn has brought in 15 west Germans to head the individual offices which have control over more than half of the Treuhand's companies and a fair degree of autonomy.

Mr Rohwedder has also now established eight main departments – privatisation, restructuring, etc – in the head office in east Berlin, but still lacks several hundred western experts as well as competent middle managers.

PROFILE: Prof Perlitz, Luneburg University business research

Some lessons in profit-making

ONE OF the biggest problems facing eastern Germany is finding competent managers who can think in terms of profit and loss.

Professor Manfred Perlitz has been trying to acquaint the central plan managers with the basics of a free market. In May, Prof Perlitz with some colleagues from the business school at the University of Luneburg crossed the border to Salzwedel.

Prof Perlitz, 47, heads the university's small business research institute. He learnt that even a crazy economic system has taught some east Germans about profit-making.

For example: the state bought cherries from east German farmers for five marks a kilo, and then sold them in the market for two marks a kilo. "So people went to the grocery store, bought all the cherries, and then sold them back to the state," says Prof Perlitz.

But it proved more difficult to introduce such "managers" to cost accounting procedures. "They didn't worry about sales or prices. The only thing that counted was physical supply, not an economic supply," Prof Perlitz says.

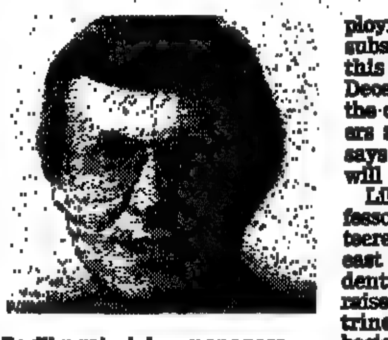
The east German managers were quick to learn. Some of the 42 east Germans taking part in the one-week seminar have set up their own businesses.

Another six seminars are planned this year and next, offering more east German managers insight into "capitalism 101". The next courses will be held on the western side of Germany, since basic tools such as photocopiers still do not exist in the east.

Such retraining for east Germany's managers is necessary before other changes can get started, suggests Prof Perlitz. Another starting point should be the economics departments of east German universities, which need a thorough house cleaning, he says.

"The problem is not so much one of money, but how to develop skills in the GDR," insists Prof Perlitz.

At least the east Germans are way ahead of their Soviet counterparts, he adds. Chancellor Helmut Kohl promised President Mikhail Gorbachev in June 1989 that west German companies would train 3,000 Soviet managers. But the training seminars showed it is first necessary to "untrain" the Soviets, "who aren't managers in the western sense, but bureaucrats," says Prof Perlitz.



Perlitz: retraining managers

Many of the Soviet bureaucratic managers who have attended the 10 training seminars held so far are apparently still satisfied with the status quo. "They're not convinced of the necessity to change," he concludes of his Soviet pupils.

In one sense, east Germans have little choice. Mass unemployment looms as government subsidies expire at the end of this year – just after the December 4 elections. Many of the coddled communist managers are "afraid to go it alone," says Prof Perlitz. "Now they will be forced into it."

Like other west German professors, Prof Perlitz has volunteered to teach some classes at east German universities. Students, as well as managers, raised on Marxist-Leninist doctrine, are just learning the basic tenets of capitalism.

Prof Perlitz serves on the scientific advisory council of the new International Partnership Initiative, helping co-ordinate economic co-operation. As a business consultant to several leading German companies, he flies to Hong Kong, New York and elsewhere, proclaiming the 1990s as "the European decade".

"We're talking of 3.5 per cent annual growth for the next 10 years," says Prof Perlitz of Europe's expected GNP growth. It should be double that in eastern Germany.

Dennis Phillips

PROFILE: Helmut Lehmann; from transport ministry to building contractor

Under no illusions about the future

MR Helmut Lehmann was quick off the mark when the old order collapsed in East Germany.

The slight, mild-mannered building engineer quit his job last December in the transport ministry where he was responsible for investments. A month later he obtained a licence to set up his own building company.

His progress since has been atypical of the east German building sector where plummeting investments have forced many newly-formed private companies to the brink of closure. Mr Lehmann's earlier contacts helped him at a critical phase last spring when he took over a large project for the East Deutsche Post which had been abandoned by a state company. The DM3.5m three-storey transformer building was one of the largest contracts to be awarded to a private builder. He plans to finish it well before the stipulated completion date in January.

Starting with some capital of his own, Mr Lehmann obtained a loan from Gefa, a subsidiary of Deutsche Bank, which kept ownership of the delivery van and polishing machines he bought until they were paid off. A West Berlin builder advanced DM120,000 worth of machinery and equipment which, in addition to the rental of a crane, brought monthly repayment charges to DM25,000.

Mr Lehmann hired 45 workers and picked up several low-mileage trucks and other equipment from the army.

The nimble East Berliner lost no time seeking new opportunities in co-operation with western partners. In January he plans to establish a joint venture – in which he will hold 51 per cent – with a west German builder, a sub-contractor erecting pre-fabricated homes in northern and western Germany. Twenty-five of his workers will be employed in the new venture and are getting on-the-job training in the west.

Lehmann: entrepreneur

The use of east German labour on western building sites is nothing new. Limex, the former state construction company, has long provided low-wage east German workers for western building projects. However, Mr Lehmann stresses that by contrast his workers will be getting west German wages.

He freely admits that his business contacts with the west have been aided by his second job, editing the magazine of the east German employers' association. Meanwhile, Mr Lehmann's company is about to take over a building unit with 20 workers which belonged to the East German Council of Ministers. He obtained a 10-year rental contract for the nationalised property and an option to buy which, however, may take some time to exercise.

Like most east German entrepreneurs, his biggest problem seems to have been the near-impossibility of buying commercial property from the local authorities. In spite of an ordinance last July that property was to be sold at reasonable prices to smaller private companies, the authorities have held out for higher prices and, until recently, were wary of possible later claims on property, which would involve them in expensive litigation, by former owners. He welcomes the federal government's decision to reimburse such property owners as an important breakthrough.

Mr Lehmann actively seeks orders, bidding for projects ranging from a new hotel in Potsdam to apartment houses in west Berlin. Last summer he was scathing about Bonn's programmes to promote the Mittelstand in east Germany. The country needed investment incentives similar to those given to companies which set up in west Berlin and the former border areas of west Germany, he said. The DM10bn provided by Bonn for municipal investments in the east had been in effect blocked by local authorities.

Now he expects the coming winter to be very difficult for the building industry in the east but is confident that activity will pick up markedly next spring and summer. "West German companies thought they could supply east Germany from the west, but there are delays in deliveries so capacity will have to be expanded locally," he asserts.

But Mr Lehmann is far from optimistic about the immediate employment prospects for the 1.4m east Germans on short-time pay who stand to lose their jobs in six months' time. By next summer two companies in three might be bankrupt and as many as 3m east Germans unemployed, he predicts glumly. Only relatively few workers would be rehired by the west German companies which moved in.

His advice to east Germans on short-time work is to quit immediately and apply for retraining or set themselves up on their own. Hanging on in the hope of being re-hired by their old company is "deadly fatalism", he says.

Mr Lehmann holds no illusions about the future of the tens of thousands of small private retailers and artisans who survived under the communist system without competition. They will come under merciless pressure from the large west German chains which succeeded in eliminating so many small independents in west Germany in the 1960s and 1970s, he says. His advice to them: the key to survival lies in specialisation.

Leslie Colitt

THE EXECUTIVES in west Germany's chemicals industry, the biggest in western Europe, who contemplate the future for a reunified Germany, are wrestling with a battle which concerns their hearts and their heads.

Their hearts tell them that they ought to get involved with re-equipping and re-energising the east German chemicals industry, many components of which used to be associated with large west German chemicals groups such as BASF, Bayer and Hoechst. These are the so-called Big Three, the world's three largest chemicals groups.

The heads of the executives tell them a different story. The east German industry, though large in output terms, is well behind much of the chemicals business in terms of production technology and approach to pollution problems.

East Germany's chemicals business, the eighth biggest in the world and the second largest in eastern Europe after that of the USSR, has lacked anything approaching the kind of marketing-based style seen in western chemicals groups.

For decades, managers in the east German industry have been used to fulfilling production quotas from government ministries. Revenues from sales to other countries have come largely in soft currency arising from government trading agreements.

"The east German industry is not really geared to going anywhere," says one west German executive. "With one or two exceptions, we would be mad to invest in it."

The east German chemicals business employs 300,000 people and in 1989 had sales of about DM100bn (at the new exchange rate introduced earlier this year.)

That compares to the total output of the west German industry in 1989 of DM160bn, and employment of 580,000. Comparisons, however, should not be taken too far because of the different product mix of the two countries' industries and the fact that until recently east German marks were worth far less than the D-Mark.

In the past few years the West German chemicals industry, the Big Three in particular, have recorded impressive growth. They have expanded especially fast in the US and other parts of Europe.

The companies have directed, to some effect, more research resources into higher-value, low-volume areas of chemicals such as agrochemicals, drugs and speciality types


Schwarzheide plant in east Germany: acquired by BASF

CHEMICALS

A difficult transition

of industrial materials like polyurethanes. These areas – in contrast to bulk areas of chemicals such as commodity plastics – are generally reckoned to have higher growth prospects over the long term.

Although profits growth in the Big Three has declined in the past few months – in line with the slowdown in much of the rest of the world chemicals industry – the companies are thought to be in a good position to build up strength during the rest of the decade.

Discussion of how the east and west German chemicals industries are likely to come together – if at all – is made more interesting by the fact that before the Second World War they were part of a unified combine which was among the most powerful industrial groups ever.

IG Farben, formed in 1925, was broken up by the allies after the war ended. It was an important supplier of petrol, rubber and other materials in Germany's war effort. The US Government later described IG Farben as "the most powerful single industrial conglomerate in Europe".

The west German component of the conglomerate was split up in 1945 to re-establish the Big Three and other west German companies, most of which had existed separately before they had been grouped into Farben.

Farben's plants in what became east Germany were taken over by the new communist regime and formed the nucleus of what until July this year was a series of state-owned chemicals *Kombinate*.

That explains why a map of factories in the east German chemicals industry contains many references to the west European business. Many of the biggest plants used to be part of the Big Three and also other West German chemicals groups such as Schering, Henkel and Hüls (part of the Veba energy company).

Other non-German companies including Belgium's Solvay and Akzo of the Netherlands owned other chunks of the east German industry before the war.

The degree to which these companies want to reinvolve themselves with their former sites – and in general their interest has so far been lukewarm – will be an important factor determining how the east German industry shapes up.

In the latest twist to the story of government-inspired change in 20th century German chemicals industry, the *Kombinate* were reincorporated in July to form ordinary limited companies, albeit still state-owned.

Almost overnight, managers were urged to take on western entrepreneurial-type attitudes and cast off the dogmas of state planning.

Just how difficult it will be to push through the transition is evident by the details of one of the large former chemicals *Kombinate*, at Leuna, near Leipzig. The 11 sq km Leuna site started life in 1916 as part of BASF, later becoming incorporated into IG Farben.

Leuna, with 27,000 workers at its peak, is now well past its prime. Years of under-investment have made much of its manufacturing equipment rusty and obsolete. The plants are linked up by 700 km of pipework, all of which by Leuna's own calculation needs replacing.

Permeating the Leuna works is a pungent, acid smell. That is due to the 17 tonnes of sulphur dioxide, the principal component of acid rain, that the Leuna works sends into the air each hour as a result of its heavy use of brown coal as fuel. The figure is equivalent to roughly 4 per cent of sulphur dioxide emissions from all sources in west Germany.

Leuna's management has said it is looking for outside partners. But most experts think it is highly unlikely to survive in its present form. The best chance, probably, is for parts of it – such as a relatively modern methanol facility built with the help of Metallgesellschaft, a west German engineering group – to continue with virtually all the rest of the site to close down.

Most west German chemicals companies, and others from other countries, are cautious about forging links with their east German counterparts. Few companies are interested in manufacturing projects, although there have been discussions about marketing and technical joint ventures.

For example, Chemische Werke Buna, the east German plastics and rubber combine, is negotiating an agreement to form a 50-50 joint venture with Hüls; Henkel has agreed a technical co-operation with east Germany's leading detergents combine Waschmittelwork Genthin; and Hoechst has signed a similar agreement with Lacufa, a leading paint producer.

Many West German companies are reluctant to take over ownership of east German assets for fear of unknown, long-term environmental liabilities.

The one concrete example of a west German company that has acquired an existing east German chemicals plant is BASF, which this month agreed to purchase the east German polyurethanes combine, Schwarzheide.

BASF has reached an accord with the German government effectively freeing it from responsibility for existing contamination on the site and pollution in neighbouring towns.

BASF says the Schwarzheide plant is one of the better run east German chemicals sites. Roughly four-fifths of its output is in polyurethanes, and much of the production technology at the site dates from the 1970s, making it more modern than most other east German chemicals complexes.

Moreover, the output from the plant would blend in with BASF's own operations. The west Germany company is – with Bayer, Dow Chemical of the US and Britain's Imperial Chemical Industries – one of the top four west European polyurethane producers.

Extra production from Schwarzheide would give BASF's business a useful fillip. "The plant would fit in very well with the whole of our European operations," says a BASF executive. BASF, it seems, is definitely not letting its heart overrule its head.

Another rare company interested in a chemicals production venture in east Germany has come from Solvay, Belgium's biggest chemicals group.

The world's largest maker of soda ash, a material mostly used in the glass industry, it wants to reclaim its big soda ash plant at Bernburg, which Hitler annexed in 1939.

Solvay says the plant has a future and is willing to invest in it.

Peter Marsh

PROFILE: Former East German factory owner

Prepared to wait

MR Walter Marx, 69, squints up into the bright morning sun over his hometown of Friedrichroda in east Germany. "Up there," he says, pointing to the top of the three-storey factory building, "there used to be a big sign saying M-A-R-X Furniture Factory."

No more. Like all other ex-owners of factories in the German Democratic Republic, Mr Marx had to sell his family-owned company to the government in 1972. He stayed on as the worker-elected director until 1978, when his factory was forced to join two other furniture factories as a state mini-conglomerate.

Now with German reunification, Mr Marx and other "Seventy-Twoers", as the ex-owners are called, face critical choices. Should they buy back their factories and try to start again? Or is it better to stand aside and let them go bankrupt first? The latter course, resulting in mass unemployment in early 1991, seems most likely, since many ex-owners do not want to pay the price set by the Treuhandanstalt (trustee agency).

"They have determined the value of my own company. And now they say I have to pay the increased value of the buildings, even though they have done nothing to them since 1972," says Mr Marx.

To repay half the 1972 value, then paid in East Marks, in today's D-Marks, along with paying off the state-owned share, he estimates, would cost him five times as much to buy back his factory as the state paid him for it almost two decades ago. What with the investment required to compete in western Europe, that is too high a price for Mr Marx.

His father, Franz Marx, founded the furniture factory in 1919. He specialised in Louis XVI and Empire style furniture, having opened his first shop in Paris in 1908. A 1914 River Seine flood washed away the tiny shop, forcing the carpenter to return home to Friedrichroda after the Second World War.

The Marx factory went bankrupt in 1932 at the height of the Depression. Saved by a rich uncle, Marx senior managed to stay in business. Son Walter was captured in northern Africa and spent most of the war in a US prisoner-of-war camp, where he learned English "and the democratic system", he recalls.


Walter Marx: wonders whether the time is right

In East Germany his factory was unusual in exporting furniture to agents in Britain, Sweden and West Germany. Mr Marx decided to concentrate on export sales in 1965 after government designers insisted his big living room cabinets were "too western, too capitalist".

Producing for export meant Mr Marx could design and make the items he – and the customers – wanted. With its hard currency earnings, the factory was allowed to buy new machinery. But Mr Marx was stopped from buying the local saw mill. "They didn't want us to get too big. They didn't want to raise any capitalists," he says.

Exports meant he got to travel outside the eastern bloc, accompanied by two or three representatives from East Germany's foreign trade ministry.

"The mistrust was extreme. It was like you were on a dog leash, terrible," recalls Mr Marx of the closely supervised sales trips abroad.

The prices for his furniture were set by the foreign trade ministry, which was anxious to collect hard currency. At its best, export prices covered about half the furniture's production cost, says Mr Marx.

Mr Wilhelm Schranz, 56, is director of the ex-Marx furniture factory now. He has worked there since coming to the Thüringer forest town at the end of the war. At the moment, the factory depends on government credits to stay in business.

"Looked at from a business standpoint, we would go bankrupt," admits Mr Schranz.

"But this is a national problem and it requires a political solution. Otherwise, half of the country will be unemployed." Production costs at the factory are still at least 40 per cent higher than revenue, he admits.

Walking through the factory his family once owned, Mr Marx points out changes that are needed in machinery and production planning. He estimates he can use about 50 of the 120 workers now employed by the factory. "With the contracts they signed with the West, the only thing they're producing now is new debts," says Mr Marx.

He thinks the factory should stop production rather than continue to fulfil loss-making contracts with West Germany's large catalogue sales groups, including Quelle and Otto.

"They're all getting subsidies up to the first election. Then the bell will toll," predicts Mr Marx.

He applied in March to get his furniture factory back again. But the East German bureaucrats are less than helpful. "In all the offices with which I deal, the same apparatchiks are still there who took everything in 1972," says Mr Marx. "They'll have to go."

He offered DM500,000 for his old factory, and expects to invest another DM2m to modernise it. But the East German officials rejected his offer.

"I'll wait. When they go bankrupt, then I hope I can buy it," says Mr Marx, a glimmer in his eye. Obviously, he would like nothing better.

Dennis Phillips

Older Germans remember an era when

Times were harder

AFTER the turbulent run-up to unity, with frail East Germany falling into the arms of prosperous West Germany, it is hard to recall a time when both sides were equally desperate. But in the late 1940s, life was a struggle all over Germany. The scars of war were still vivid and the economic miracle in West Germany was some way off. Those who were children then have powerful memories of war's aftermath in a defeated country.

The three Dümbelfeld sisters, Erika, Ingeborg, and Renate, grew up with their brother Karl in Bavaria. In the early post-war years, there was never much food on the table, they were never quite near starving. Bread and potatoes, hard as they were to come by, were the staple foods.

Refugees streamed over from the east. Many were herded together in overcrowded barracks near where Karl and the girls lived with their parents, in two cramped attic rooms in a big house near Munich. "It was always dark," remembers Erika. "That's why we all have to wear glasses."

When the war ended, Erika was 11, Inge 6, and Renate 3. They had been lucky to survive. Inge has a mark on her forehead from a bombing raid which sent the family down to the cellar when their Munich flat was destroyed in 1944. The children and their mother had to be dug out. With their possessions destroyed, they went into a tiny room by Lake Kochel to the south. It was there that Renate nearly drowned when she slipped under a wooden beam that had floated down from a bombed bridge.

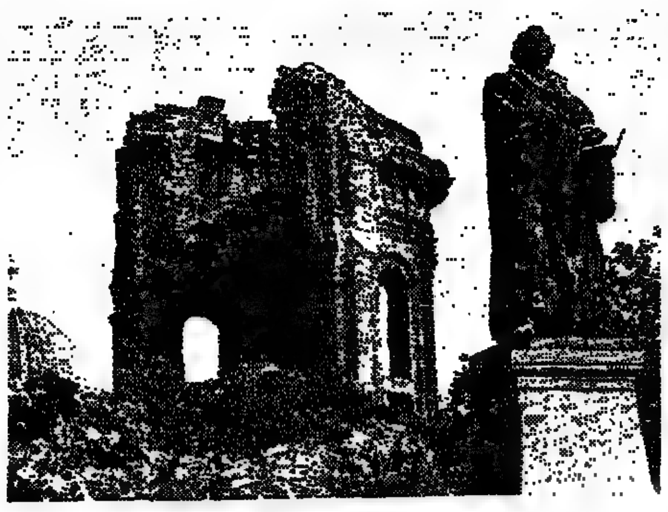
Erika, at school in Berchtesgaden, ran away to be with her family, thumbing lifts, riding on military trucks, and once, when allied bombers were in the area, diving for safety into a ditch with the soldiers.

Today, four decades later, the sisters live in a country which forms a stark contrast with the post-war privations, and can talk about their experiences without resentment. Renate is the wife of this correspondent and living near Frankfurt, while Inge Brandl and Erika Glas are still in Munich, where their grown-up children also live.

Munich today is one of Germany's most attractive cities, home to thriving companies like BMW and Siemens. Because it was restored slowly after the war, it has preserved its charm. But in the 1940s, its wide streets were lined with the gaping facades of once-elegant buildings. The Frauenkirche (cathedral) stood as a bleak memorial to the horrors of war, its twin towers undamaged above the rubble.

The city was a magnet for the dispossessed seeking to rebuild their lives in the American zone. Inge recalls what it was like being a Bavarian in a school where the teacher and most of the children in the 60-strong class were from the east. "We were made to feel like outsiders. We were treated dreadfully and beaten if we spoke in Bavarian dialect."

Being left-handed, little Renate was often rapped on the knuckles. She has fearsome memories of her first two years at school, being terrorised by one teacher who clearly disliked any pupils who had not had to make the harsh trek from the east.



A sad irony: ruined Dresden and a statue of Martin Luther

All three sisters have sharp memories of post-war Christmasses. Inge tells what it was like to feel discriminated against for having suffered less than others. "We did a Christmas play and I was an angel. Our mother had sewn me a long white dress and I had golden wings of papier-mâché. After the play, American food packets were distributed. We lined up and then one of the teachers pulled us out by our collars and said they weren't for us. We stood there and cried – after all, we had as little as the others, having lost our things in the bombing. Someone gave us some left-over chocolates and biscuits. But it wasn't the same."

At home, the atmosphere was jollier. Usually, the weekly treat was a few measured out, slices of sausage. Inge, fond of meat, says her birthday wish was to have one piece of sausage for herself. On Christmas Day, the meal was rabbit, reared by their grandfather and thus not requiring scarce coupons. "We couldn't eat the rabbits," says Inge. "We had helped feed them with dandelions and clover."

Father, back from the war in Italy, spent months in a garden shed making toys. One was a shop counter with drawers and scales and big enough to sit behind. Their Christmas tree, from the nearby woods, was draped with strips of silvery foil cut from wide pieces found in nearby fields; aircraft had used them to avoid radar detection.

Rudolf, their father, was an electrician in the large BMW nearby plant (no longer owned by the company). Fortunately, both parents were ingenious. Katherina Dümbelfeld sewed skillfully, able to make and alter clothes to fit the children out of almost any material to hand. From his workplace, Rudolf smuggled out nails – he also made furniture – and a metal part which she used to flatten their occasional pieces of meat so they would go further.

A big problem was shoes. When brother Karl's leather ones fell into the stove and burned when being dried, it was a catastrophe. One way round this was to stitch canvas on to soles cut painstakingly by the father from rubber tyres. Holes for the thread were made by driving a sharp point through the rubber with a hammer. "I had to put my feet on a piece of paper, so he could draw the outline," remembers Renate.

Rudolf was clever in other ways, too. Although the rooms were tiny, there was a garden, where he planted tobacco from which to make crude cigarettes. When she visited a friend in a prison camp, Renate's father – she was told later – gave her a bag with a false bottom for smuggling cigarettes past the US sentries, for the inmate to sell on the black market.

There were other ways of augmenting scarcities. The neighbouring Müllers secretly kept a cow. "I used to get milk there for nothing," says Renate. "They gave me biscuits, too." Americans living in the same house were also generous, but the owner was bitter at having to take in a homeless family. Erika said: "She used to get up at five in the morning to pick up the windfall apples so we wouldn't have them."

Inge used to sneak on to the back of farm wagons and tuck potatoes into her apron, running proudly home with them. Some parents even used to send their children out to beg from local farmers.

It was by no means a brutal or unhappy childhood. There was plenty of space to play outside. The children did not have to live in cellars, like many Germans, and nearly freeze or starve. And eventually, life improved. Inge remembers well what she bought with her first meagre earnings as an office trainee at the age of 15 – her first shoes with proper heels. Erika bought a bicycle with her first wages.

The family first noticed a real change for the better, when they moved into a flat in Munich in 1957. It had a proper bathroom and kitchen and more space. Televisions and washing machines began to appear in households and West Germans began holidaying abroad. That was when the gap between the Germanys really started to open up.

Andrew Fisher

Rejuvenating the pre-war Berlin

A balancing act

THE CONTOURS of the future Berlin are taking shape and the city again has a raw, unfinished quality which distinguishes it from older European cities. It is not difficult to foresee that in 10 years' time Berlin-Mitte, the pre-war heart of Berlin east of the Brandenburg Gate, will pulsate with life as it did before the war.

West Berlin's aged population is expected to undergo a rejuvenation and, together with east Berlin, is forecast to rise from the present 3.3m inhabitants and attain the city's pre-war population of 4m by the year 2010. The greater Berlin region, an area with 4.3m people residing within a 60-km radius of the centre of Berlin, could regain its pre-war population of 5m.

Meanwhile, the contrast is even sharper than before the Wall came down between brooding east Berlin – with soaring unemployment, rutted streets and unfinished prestige buildings of the previous regime lining Friedrichstrasse – and the optimism of west Berlin. Consumption per capita in the west is DM25,000, twice as high as in the east where the freshly-unemployed from the former GDR ministries and state companies will further depress spending power.

West Berlin economics officials warn that if new jobs are not created and the large gap between earnings in east and west is not narrowed, hard-pressed easterners will flood into west Berlin to seek employment. Nearly 100,000 of them are estimated already to have already work in the city, and a further large influx would lead to fierce competition for the jobs normally held by Turkish migrants. Relations between east Berliners and the 130,000 west Berlin Turks are already tense, with the easterners frequently blaming the Turks for their problems.

Forecasts, however, speak of the first signs of an economic recovery in the east next spring when west German companies begin to move in to erect new offices and renovate old buildings. Bertelsmann, the giant German publishing house, and West-LB this month signalled their intention to erect a large media centre and shopping mall at the corner of Friedrichstrasse and Leipzigerstrasse near the city's pre-war publishing district.

Berlin's sale to Daimler-Benz of a prime slice of Potsdamer Platz, the former wasteland bisected by the Wall, is also expected to attract investments to the city by other companies, despite the controversy surrounding the highly favourable terms of purchase. Daimler-Benz plans to erect a 70,000 sq m service centre employing 3,000 people on part of the vast square which is to link east and west Berlin.

But securing jobs in the public sector and providing incentives for investments in east Berlin will require even more financial aid from Bonn than the DM9.2bn provided this year alone for west Berlin. Another DM13bn was given in direct subsidies to the west Berlin budget, fully half of which was financed by Bonn. The ending of Berlin's geopolitical isolation has put pressure on the city government to reduce west Berlin's reliance on Bonn while subsidies are shifted to east Berlin and surroundings.

Berlin's city government under Mr Walter Momper, the popular Social Democratic (SPD) governing mayor, proposed that Bonn lower its subsidies to west Berlin over a period of seven years beginning in 1993. While Chancellor Kohl appeared to agree to this formula, spokesmen for the governing coalition and the SPD in the Bundestag said the tax benefits for west Berlin-based companies and employers should be reduced starting next January. This produced an outcry in Berlin where Mr Momper accused Bonn of aiming to turn the city into a "piggy bank for unity".

West Berlin's German Institute of Economic Research (DIW) recommended that in light of the unification of Berlin and its promising economic future, subsidies to invest in the city should be eliminated by 1992. Reductions in VAT granted to west Berlin companies and those in West Germany buying their products should be wound down in three stages beginning next year. DIW proposed that tax benefits and Berlin bonuses for employees be lowered over a period of seven years starting in 1991. It was also proposed that part of the money saved could go toward eliminating the economic gap between east and west in the Berlin area.

Memorabilia at the Brandenburg Gate

Economic and political tensions between Bonn and Berlin, a recurring theme over the past four decades, have peaked in the tug-of-war over whether to keep the seat of government in Bonn or move it to the German capital. If the newly-elected parliament that emerges from the elections in December fails to support Berlin as the seat of government, it is likely to further demoralise east Berliners, nearly 25,000 of whom lost jobs with the former East German government. The friction between historically Protestant Berlin on Germany's eastern rim and far-off Bonn in the Catholic Rhineland is almost certain to increase as the financial demands of unification grow.

But the city's longer-term growth prospects are felt unlikely to be impaired even if the Bundestag and the chancellor fail to move to the German capital. Berlin's location astride the main road and rail links to the west from Warsaw and Moscow will make it an jumping-off point for Germany's trade with Poland and the Soviet Union.

Urban planners and environmentalists in Berlin are determined to avoid the mistakes of other large cities which are strangled by traffic and plagued with urban sprawl. The planners want to retain the countryside beyond the borders of Berlin – much of the surroundings are farmland, forest and lakes – and prevent a rampant suburbanisation of the city's environs. But villages and towns in the greater Berlin region are starved of funds and many are eager to sell public land to real estate developers from the west.

The Berlin regional planning authority set up early this year also wants to discourage the use of cars in the city by reactivating and modernising the S-Bahn urban railway network built in the late 1800s which blankets Berlin and stretches well beyond the city limits. New communities outside the city are to be built parallel to the S-Bahn so that residents can commute more quickly by rail than by car. But modernising the S-Bahn will cost an estimated DM1.4bn and Bonn has signalled it wants the S-Bahn to be taken over by the city and not by the highly-deficitary Bundesbahn (German Federal Railway) which operates regional S-Bahn systems in the west.

Leslie Colitt

PROFILE: Clemens Thürmann

Man of the moment

A YEAR ago Dr Clemens Thürmann, 41, was a middle-ranking official in a small research institute attached to the East German Building Ministry. He lived quietly with his wife and son in a sleepy suburb of East Berlin.

Today he is one of the most important men in Berlin and scarcely sees his wife and son at all. He is the Stadtrat in East Berlin, with overall responsibility for transport, housing and planning, and a key man in fitting together the two sides of the city.

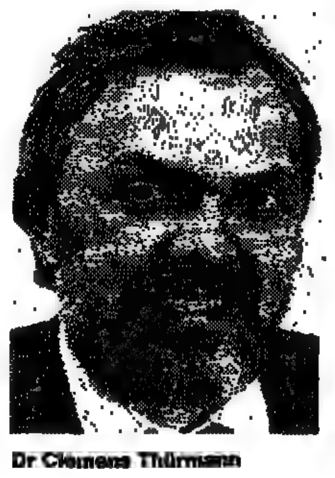
The bear-like, rather dishevelled, Mr Thürmann belonged to the suppressed meritocracy of the former East Germany. He had always refused to join the Communist Party and thus, despite his talents as a statistician, could not rise above a certain level in his institute, could not travel abroad and earned no more than an average worker (about 1,200 East Marks a month).

Now he earns about five times as much but has no time to spend his money or travel, except on business. "I work between 12 and 16 hours a day, communicating with my wife only through notes on the kitchen table during the week. If I'm lucky, I get one day off at the weekend," he says.

Mr Thürmann is a politician, a Social Democrat, as well as a city planner, and has to spend much of his day in meetings of East Berlin's ruling SPD fraction or party committees. "I now understand why people call democracy the worst form of government except for all the others, it is so inefficient," he complains.

Has he changed? "Yes, a bit. I was always quite self-confident; now I show it more. I've lost touch with some friends but made some new ones. And I suppose I've developed political elbows," he says.

He seems to like the stress and can think of few more absorbing jobs than helping to build the city. Most of the time, he says, everyday concerns cause one to lose sight of the historic dimension, but sometimes it floods in.



Dr Clemens Thürmann

How is Berlin growing together? "Not without difficulties, of course, but it is happening quickly. We were thinking in all-Berlin terms before the west Berliners, they were naturally a bit more cautious than we were, we have everything to gain and they have quite a lot to lose, at least in straight financial terms," he says.

East Berlin, which first acquired a democratic city government in May, has received a central government grant of DM3.3bn for the second half of the current year. Private capital is starting to flow into the eastern side of the city – he says DM1bn has already been invested and DM2bn to DM3bn is in the pipeline – but very little of it is manufacturing investment he complains.

Lack of property for new enterprises has been less of a problem in East Berlin than in some other big towns, at least in the public sector.

East Berlin has, however, generally been renting rather than selling land because of the uncertainty over value. "We don't want to sell land and then find it triples in value," he says. He adds that bids for property on East Berlin's grandest avenue, Unter Den Linden, are now being made at a starting point of DM11,000/sqm compared with only DM7,000 in the centre of West Berlin.

East Berlin's biggest problem will be the unemployment created by closing down the huge ministries of the former East German state. Mr Thürmann reckons that about 250,000 bureaucrats will lose their jobs and not many will be soaked up by the new all-Berlin city administration. Perhaps he could split his job and see more of his family.

David Goodhart

It will take more than a treaty

Gold mining mentality

OPPOSITE the main Berlin railway station in the eastern half of the city stands a stretch of the Wall, once part of the fortifications. It was never the scene of any great human tragedies, for on the eastern side runs a road with heavy traffic, on the western side a barely accessible river port.

Now, after the Wall has ceased to serve any purpose, it is being painted from the East. The authorities have advertised at art schools for daubers to come forward to cover it. This 500m stretch of wall will soon to demolished, and the fragments will be sold. Painted pieces fetch higher prices.

Before November 9 1989, Wall painting was a western speciality, carried out by local residents to brighten it up. The imitation at the railway station wall is symptomatic of a great deal of what has happened in eastern Germany since then. The east is copying the west – and the main motive is financial reward.

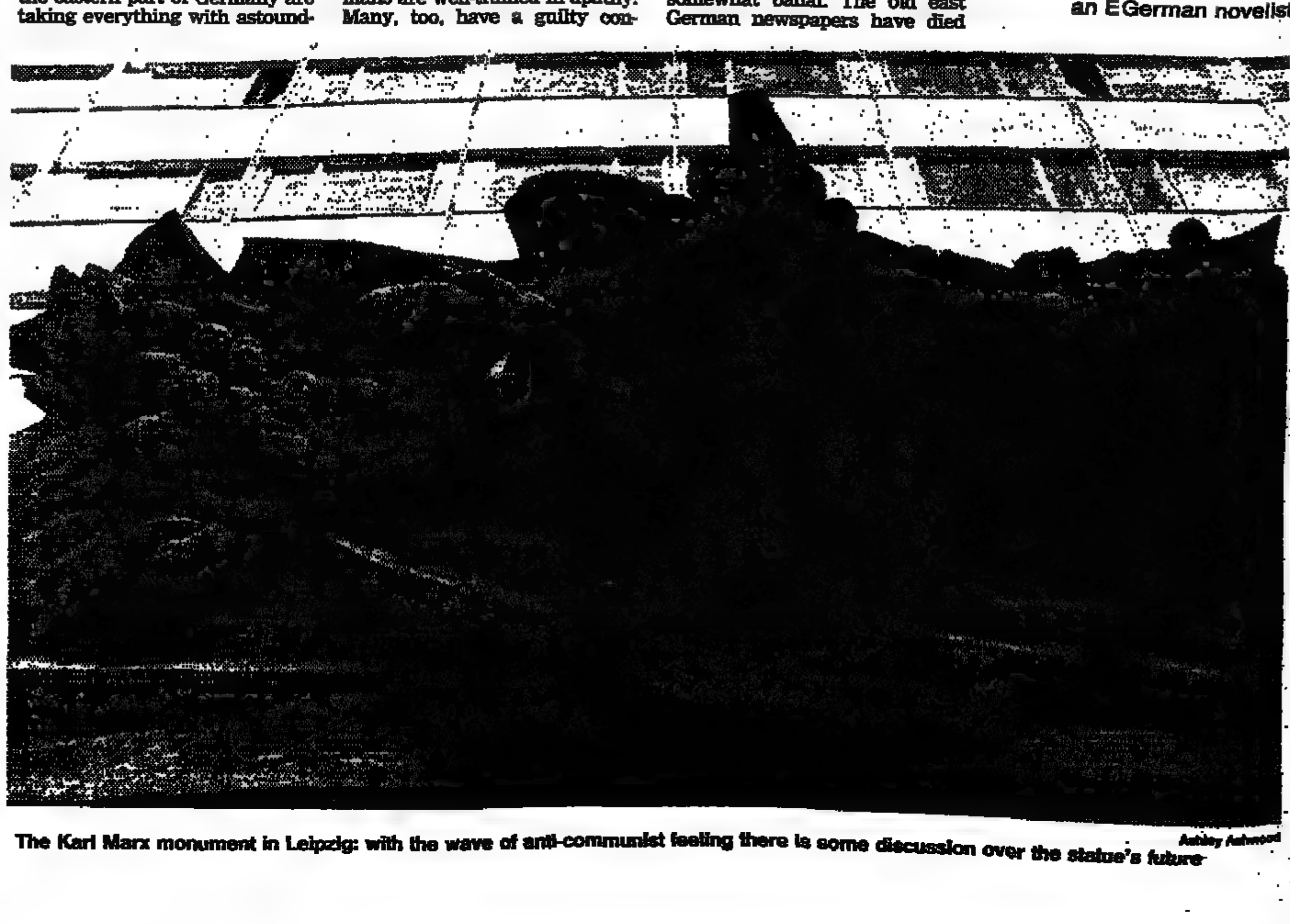
The aim of the Wall was to separate what belonged together. Now the two halves are supposed to be growing together again. However, forty years was long enough to allow different developments in the two states to become solidly rooted. It will take more than just a unification treaty to reverse that.

The east Germans are on the whole more passive than those in the West. This is a result of the old system, which hardly rewarded flexibility and initiative. As a consequence, the east Germans are less mobile than hoped for – and the economic changes accompanying unity are much slower. Bankruptcies are continuing; unemployment is shooting up; and the economic downturn has dampened the euphoria of a few months ago. West German taxpayers, too, are aware that unity will cost more than was at first imagined.

None the less, the people in the eastern part of Germany are taking everything with astounding discipline. There have been strikes and demonstrations, but they have all been orderly. West German hooligans cause much greater damage. The east Germans are well-trained in apathy. Many, too, have a guilty conscience. Without the complicity of many individuals, the old regime would never have existed for so long.

Much of what is happening is somewhat banal. The old east German newspapers have died out or are being bought up by western publishers. East Germans are buying west German cars, on credit, and are using them to kill more people on the roads. Supplies in the shops are less abundant than in west Germany, the prices are higher, and incomes are lower. There is a gold mining mentality in the air – but not everyone will discover gold.

Rolf Schneider,
an EGerman novelist



The Karl Marx monument in Leipzig: with the wave of anti-communist feeling there is some discussion over the statue's future

Getting to know Germany: exploring its coastline, discovering its mentality and its penchant for English words

Much still to be done

IT was my wife who noticed that the tall lights along the roadside were pointing the wrong way. We had just driven into Mecklenburg, one of the five new German states in the east. The remains of the fences erected at the water's edge to stop people leaving were still visible, though the barbed wire was gone.

On a strip of the Baltic Sea coast running close to the road, the lamps had a sinister double function. They did not overhang the street, but had been turned seawards to detect those guilty of attempting *Republikflucht* (flight from the republic), a crime under the Honecker regime.

A year ago, it would not have been possible to simply drive over from the west. From the start, it was clear that the weekend trip would not exactly be full of fun. The concrete fence posts and the reversed street lamps were a chilling reminder of how recently the old system was toppled.

Less startling, after previous trips eastwards was the depressing state of many buildings and the extent to which the towns' historical fabric had been allowed to decay. The northern part of east Germany does have its beauties. As we sped by fields and villages, it was easy to be lulled into a sense of longing for a time when life was less hectic and there was time to meander.

Lining many of the country roads – some in good repair, others hopelessly worn out – were arches of trees, their leaves brilliantly tinted in the autumn sunlight. In spite of the increasing numbers of fast western cars, including second-hand models bought by people in the east, the roads were not too crowded.

Any temptations to nostalgia, however, were rudely banished when we entered the towns. The drabness and neglect of 40 years of a planned economy were startling.

We visited Wismar, Rostock, Stralsund, and Schwerin, names with an appealing north Germanic ring. All have striking buildings, notably the monumental red brick Gothic cathedrals which reflected the medieval prosperity in the days of the Hansa trading league. But they also contain areas which were allowed to run to seed for lack of support from East Berlin, as well as clumsy modern constructions.

Our first stop was Wismar, a harbour town with a large and impressive main square which has been well maintained. In spite of the quaint image pictured in the guides, the harbour is hardly a tourist attraction. The interior of Wismar's Church of St Nicholas, on the other hand, is. Unlike other churches in the town, it escaped the bombs of 1945. With the sun streaming through lofty windows beside 120-foot brick pillars – the nave is the highest in east Germany and the fourth highest in the country – the atmosphere is an uplifting mix of simplicity and grandeur.

Opposite the church, and separated from it by a tree-lined canal is a row of old houses, ready to be renovated. It is not hard to imagine what the scene could look like once the work is completed.

In the main square is a pavilion-like building, in Dutch renaissance style, into which spring water was piped to supply the town. This has been carefully restored, as has the steeply gabled Alte Schwede (old Swede), Wismar's oldest house (built in 1380) and now a restaurant.

Wismar certainly has tourist potential. It is starting to be aware of this, but it will take several years and much money to make it a must for visitors.

The next town, Rostock, centre of the region's shipbuilding industry, was rather a disappointment. Its cathedral was closed and its main streets shabby. The town hall is impressive, with a Baroque front and a tall Gothic backdrop of arches and towers.

The wide main street running next to the centre has some imposing commercial buildings in a reasonably successful mixture of Gothic and modern styles, again using the pervasive, rather forbidding red brick.

The magnificent 19th century palace at Schwerin

We had booked a room near Rostock at Warnemünde, a resort behind the Baltic sand dunes. Though hardly brimming with character, the hotel was comfortable. The functional room had one feature, though, which we had never seen in years of travelling: the bed was made for two, but it was long instead of wide, so that we had to sleep feet-to-feet rather than side-by-side. Renate faced the sea and I faced the door.

Stralsund, on Germany's north-eastern corner, was our next destination. The photograph in the Baedeker, taken from a church tower, shows it situated majestically on the coast. At ground level, it is more down-at-heel than majestic, although the town hall's high Gothic façade – in red brick, of course – is an eye-opener. So is the wonderfully serene interior of the Church of St Nicholas, partly restored with secular murals painted on a whitewashed background.

After a longish, relaxing ride across country roads, we reached Schwerin, with its magnificent 19th century palace. Built on an island in a small lake, it is an inspired confection of towers, turrets, and domes topping a rambling structure with a detailed, many-windowed façade. Some of the rooms have been beautifully restored, with inlaid floors, richly decorated ceilings, and exquisite furniture. The gardens are a treat, too.

By comparison, the rest of the town looked dreary. Clearly, Mecklenburg, has much to do.

Andrew Fisher

A code of conduct

MANY visitors to Germany are unsure what to expect from a country which has just been unified. Here is a guide on how to behave:

■ Do not expect that reunification has made everyone happy. The size of the German economy has gone up by 10 per cent, but the number of people losing their jobs has risen by about 50 per cent. Do remember, in spite of all that you have read about the Germans *taking over Europe, that the* new Germany – for the moment – is poorer than the old Federal Republic.

■ Do make an effort to brush up your language. If you can show that you have learned a few more child-like phrases since you were here last, most Germans will still compliment you effusively. But it may be slightly more obvious than 12 months ago that they do not really mean it.

■ Do realise that one way of slipping into conversation is to admit that you are confused about reunification. Most Germans will relish a chance of explaining why they are as well, or why you should not be, or both.

■ Do make an effort to travel to eastern Germany. If you are from England, you will feel reasonably at home in the hotels and in the railway buffet compartments.

■ Do remember that the only foreign language taught in east Germany was Russian. If you find yourself conversing with anyone east of the Elbe, do not get into a discussion about Mrs Thatcher's views on German unification unless a) you have an aeroplane ticket to leave Germany extremely fast, b) you are under police guard, c) you are talking to an ex-member of the Politburo.

■ Do not boast about Britain being in the European Monetary System. Do try to avoid complex arguments about the effects of reunification on the D-Mark. Do try to make clear that you are well aware of the dangers of D-Mark mortgages.

■ Do be aware that German grammar may give you useful advance warning of future events. If during the course of the evening a previous stranger starts to smile, and calls you regularly by the familiar "Du", do consider carefully the possibilities that you are about to be a) asked for a loan, b) picked up, c) given a job, d) mugged, e) arrested.

■ Do regard the Cold War as well and truly over. Do make an effort to say something nice about Mr Gorbachev's economic policies. Do not refer to things such as like "front line", "victor powers", "East bloc", "nuclear", "communism", "Nato" or "army" in any other than a historical sense accompanied *by a vague shrug of the shoulders.*

■ Do bear in mind that, with the challenge of unity, Germans have become less risk averse. Do test the new spirit of adventure and excitement by recommending that your host carries out the following simple steps: a) helping his wife with the washing up, b) cutting his lawn on Sunday, c) lending his Mercedes to his neighbour, d) moving house to east Germany.

■ Do not forget that, in this part of Europe, dinner parties, concerts, conferences etc usually start on time. Do bear in mind that one reason for the tortured looks on many east Germans' faces is that they would like to apply particularly rigorous standards of punctuality, but are prevented by mechanical failures.

■ Do remember that there are still 380,000 Russian soldiers in east Germany, and that many are suffering from the effects of the D-Mark. Do bear in mind that if you can buy from them a) greatcoats, b) helmets c) tanks you will be contributing to disarmament as well as Perestroika.

■ Do bear in mind that free markets in east Germany have made people flexible. Do not be surprised if the man whom you saw at the East Berlin ministry a year ago and is now working for the Deutsche Bank can no longer recall who Erich Honecker was.

■ Do consider that, though reunification has made the Germans more pleased to be Germans, they are unsure whether they should tell foreigners about this straight away. Do be aware that the quickest way of finding it out is by discussing the World Cup in a late-night bar near Dortmund railway station.

■ Do take seriously certain codes of social order. Especially in east Germany, if you are a professor, it may be expected that you will arrive late. Do not shake hands with the butler, do not quaff from your wine glass before you have pronounced "Prost." Do recall that you will be required to repeat this several times, at irregular intervals, before you are allowed to leave.

■ Do remember that, the more important you are, the less likely it is you will have a) *an entry ticket to a social function*, b) visiting cards, c) your own car parked outside.

■ Do be a little more careful than in the past about making jokes about Helmut Kohl. Do not refer to Hans-Dietrich Genscher, foreign minister, unless you are standing up and pondering the future of the world.

■ Do try to avoid driving on the Autobahn unless you are at least two of the following: a) fully insured, b) driving a white BMW-520 with three sets of headlights, c) expressedly told to do so in your horoscope, d) being pursued by Interpol, e) a maniac.

■ Do not expect the Federal Railways to have maintained the same standards of timekeeping as when you travelled here last. Do not bother to ask the Schaffner for an explanation for the lateness of the trains. Do remember that this is always caused by a) the late connections of the Italian railways, b) the late connections of the Polish railways, c) the late connections of the French railways, d) the late connections of the Belgian railways, e) reunification.

■ Do reflect that, with unity, millions more Germans will be travelling abroad during August. If you really want to escape the crowds, do consider the attractions of a summer holiday next year in east Germany.

■ Do understand that the Germans enjoy watching foreigners making intelligent efforts to understand them. Do bear in mind that they are tired of being thought a) well-organised, b) disciplined, c) efficient, d) hard-working. Do try to tell them that, sometimes, they are not. But unless you are fully covered under 17 a), avoid doing this under the conditions of Rule 13.

David Marsh

Brainstorming workout für die Germans

The German language is inundated every year with more Anglicisms. Enno von Loewenstern, deputy editor of Die Welt, *has discovered that it is possible to write articles in German while using hardly any German words:*

UNSER Way of Life im Media Business ist hart, da muss man ein tougher Kerl sein. Morgens Warm-up und Stretching, dann ein Teller Corn Flakes und ein Soft Drink oder Darjeeling Tea, dann in das Office – und schon Brunch mit den Top-Leuten, meeting zum Thema: Sollen wir die Zeitung pushen mit Snob Appeal oder auf Low Profile achten?

Ich habe den Managern ganz cool und businesslike mein Papier presentiert: Wir müssen News powern und erst dann den Akzent auf Laout und Design legen, auf der Front Page die Headline mehr aufjazzen und die Deadline beachten. Für jede Story brauchen wir ein starkes Lead. Das Editorial muss *Glamour* und Style haben, unsere Top Priority belibt: Action und Service.

Der Cartoon muss gut plaziert sein, die Korrespondenten müssen Features kabeln, und sie müssen beim Handling ihrer Computer-Terminals fit sein, on-line und off-line, ihr Password nicht vergessen, mit dem Scanner umgehen können, die Disks editieren.

Und sie müssen auf ihre Connections achten, damit sie an Top-Secret-Informationen kommen; jeder Reporter muss ein veritabler Sherlock Holmes sein, dann gelingt das Comeback. Mein Conference-Report betonte das High Risk eines Conflictes of Interest mit der PR-Abteilung; der Creative Direktor und der Designer verstanden die Message.

Nach der Conference assen wir nur Fast Food und dann begann das Panel. Dafür was ich besonders gebrift worden. Das Give-and-Take war super. Viele Youngsters sagen, das Boom geht zu Ende, ein Crash komme. Manche taten so, als seien wir total und müssten ein genuines Crisis Management starten statt business as usual.

No Problem, sagte ich, ich werde nach dem Coffee Break eine Marketing-Studie in meinem Studio anfertigen, dann machen wir einen Test, wie der Trend läuft. Unser Outfit ist Okay, der Cash flow ist besser geworden, es gab einen Run auf unsere Aktien, nachdem die lange ziemlich down waren.

Noch funktioniert meine Pipeline zum Boss, noch habe ich einen Desk im Office. Dann hatten wir Happy Hour mit der Jury, Sherry und Cocktails für die Girls, Hard Drinks für die boys.

Es war beim Dinner – Black-Tie, gegrillte Steaks mit Curry und Ketchup – da sagte der Old Man, wir hätten eine faire Chance, unser Image zu verbessern, denn Job Application führt zu Success Story, wer nicht up-to-date ist, wird gekillt, that's life. Wir sind Workaholics, antwortete ich, wir kennen kein High Life und wir sind keine jet-setters.

Nach der Rush-hour wollten wir im Penthouse pokern, aber der Lift in der Lobby war kaputt, also joggten unsere Lobbyisten hinauf - Jogging ist sowieso der Hit, und wir sind Sportsmen. Nur eines macht mich total crazy – Diese schrecklichen Anglizismen in unserer schönen deutschen Sprache.

Berlin's performing arts stand to lose from unification, writes **Leslie Colitt**

If finance be the food of art, pay on

CAN a united Berlin afford three opera houses, 27 theatres, six orchestras, 150 chamber music ensembles and three large museum complexes – not to speak of two zoos?

Past cold war rivalry between the two Berlins resulted in probably the most highly-subsidised performing arts in the world. When the money was wedded with talent, it sometimes produced excellence. West Berlin's Deutsche Oper received a hefty DM72.3m in subsidies this year, and is regarded as one of the world's leading opera houses. The Berlin Philharmonic, which will get DM23.5m in public money next year under its new permanent conductor, Claudio Abbado, ranks among the world's finest orchestras. But the lesser-known German State Opera and Comic Opera houses in east Berlin which, along with the theatres, were showered with money by the Communist state, are now queuing for western subsidies.

Mr Walter Momper, west Berlin's governing mayor, has promised to preserve the city's cultural diversity when he becomes mayor of all Berlin in December. This, however, will require heavy subsidies from Bonn at a time when the resources of the federal government are severely strained by the economic reconstruction of east Germany.

Although west Berlin this year provided DM523m in subsidies for the opera, theatre and other cultural institutions, half the money came from Bonn in the form of aid to the west Berlin budget. The federal government granted an additional DM166m to subsidise museums for the former Prussian cultural treasures as well as cultural events in west Berlin, including festivals.

Bonn has agreed to finance the two eastern opera houses as well as the classical Deutsches Theater and Kammerspiele, the Berliner Ensemble and the symphony hall in the rebuilt Schauspielhaus until the end of next year. The city of Berlin, itself faced with enormous infrastructure and social investments, fervently hopes that after 1991 the federal government will continue to wave its financial wand over culture in greater Berlin. Mr Ulrich Zawatka, of west Berlin's cultural department, estimated the performing arts in east Berlin will need as much as DM500m next year while west Berlin is scheduled to receive DM528m in cultural subsidies from Bonn.

One Berlin official, who wants to stay anonymous, says Mr Theo Waigel, finance minister, will be obliged to pay up – if only to assuage the conscience of the federal government which is opposed to moving to Berlin.

Nobody wants to be merged or eliminated and egos are vastly inflated in a city where theatre directors are used to getting money to burn, regardless of the size of audiences. Thus the Freie Volksbühne had a DM3m subsidy this year for an insipid repertoire from which theatregoers stayed away. This vexes the nearly 100 established "free theatres" in west Berlin, which often play to packed houses and receive a more modest DM7.5m in support from the city.

Far from eschewing the taxpayer's money, the small theatrical groups want to get a larger share of the honeypot. The Freie Volksbühne is likely to merge with the more popular Volksbühne in the east, which is to be privatised along with three other theatres in east Berlin including Friedrichstadt-Palast, Europe's largest musical revue theatre with a staff of nearly 800.

But at least until 1992, these groups will be taken care of by Bonn. Subsidies for private theatres in all Berlin are thus guaranteed to rise well above the DM24.2m provided alone in west Berlin this year.

State theatres in east and west Berlin have yet to realise that they are competing with each other for dwindling audiences. In east Berlin higher ticket prices and falling purchasing power have drastically cut the numbers of theatregoers. But instead of offering new plays this season, the theatres are outdoing themselves to refurbish German classics and Shakespeare. The Schiller Theater in the west and its counterpart, the Deutsches Theater in the east, have both mounted opulent productions of Goethe's Faust. And Heiner Müller, the enigmatic east German playwright, is produced everywhere.

The Berliner Ensemble in the east, a mecca of avant-garde theatre in the 1950s and 1960s, has sunk even more deeply into a Brechtian rut under its actor-director, Mr Ekkehard Schall, the playwright's son-in-law. The ensemble's continued subsidisation as a state theatre by the Bonn government is an ironic footnote to unification.

The heads of the three opera houses have agreed to co-ordinate their programmes and co-operate in training young singers, exchanging staff and sharing opera studios in the future. Mr Götz Friedrich, the inspired Intendant (director-producer) of the Deutsche Oper, is likely to remain the first among equals. Deutsche Oper's orgiastic *Salome*, premiered at the recent Berliner Festwochen, stood out next to the rather worn productions of *Elektra* and *Love of Three Oranges* by Dresden's State Opera at the festival.

A cultural sidelight is the transformation of the huge marble-faced House of Soviet Science and Culture, owned by the Soviet government, into a showcase for critical Russian films, plays and authors. In a burst of business acumen, part of the building has been turned into a commercial cinema, showing new western films.

PROFILE: The Aalto Theatre

Coal, steel and culture

Ashley Ashwood

The foyer of Essen's showpiece Aalto Theatre, opened just more than two years ago

ESSEN's Aalto Theatre, named after the renowned Finnish architect Alvar Aalto, symbolises the fall and rebirth of this thriving metropolis in the heartland of the Ruhr.

Essen, straddling the midpoint of the coal and steel region, ranks as Germany's sixth largest city with 620,000 inhabitants.

Its former Grillo Theatre, named after the 19th century iron and steel magnate Friedrich Grillo, who donated the construction site, was badly damaged in the war-time bombing which devastated much of the city.

The theatre was rebuilt as a temporary solution, and the architectural competition to build a new one was launched in 1959. Aalto was given the contract, and what followed was nearly 30 years of planning vicissitudes accompanied by frequent political squabbling.

The DM140m building was finally opened in September 1988. The Grillo Theatre, meanwhile, was reopened last month as an independent theatre by the director Hansgünther Heyme.

Aalto's prowess makes the Essen Theatre a masterpiece. It ranks as Europe's best technically-equipped stage after the new Bastille Opera in Paris. The building's harmonic proportions impressively document the architecture of the 1950s. The forms in white and marble of the entrance hall beckon the visitor towards the amphitheatre-like theatre with room for an audience of 1,125.

Since the war, Essen has literally risen from the ashes. It has had to weather a downturn in the coal industry, and more recently has started to put its industrial structure on to a new footing after the steel crisis of the 1970s and 1980s. As part of efforts to improve the Ruhr's grimy image, Essen has laid on a series of special cultural, scientific and sports events. The high point this year, the Second European Opera Festival, came as the city played host to the National Opera of Tiflis performing Prokoviev's Fiery Angel.

The theatre's current director is Professor Manfred Schnabel, who took over in 1986. He was the seventh in a string of appointees after the departure of Erich Schumacher, who left his mark between 1958 and 1974 with the so-called "Essen style". Mr Schnabel presides over five different sections of the house made up of opera, concerts, theatre, ballet and youth theatre activities.

The Philharmonia, founded in 1898, is under the direction of Robert Maxym until the new theatre director and General Music director, Wolf-Dieter Hauschild, takes over in 1992.

The overall budget – DM55m – may be relatively small compared with Munich's State Theatre (DM97m) or the Hamburg Opera (DM73m), but is still enough to make the mouths of theatre directors elsewhere water. The money is spent on producing annually six premieres in opera, two in ballet and five in theatre, along with a programme of repeats. In addition, 12 concerts, song recital evenings and guest performances are also offered.

Mr Schnabel's aim is to further the talents of young singers by preserving the characteristics of ensemble theatre. The Essen ensemble meets for every rehearsal, enabling it to work together continuously. Guest stars are an exception.

In addition to classical opera, the accent is on the French musical theatre of the 19th century, with a new look at the works of Verdi also presented. The opening of the house featured the Mastersingers produced by Jaroslav Chundela, with the leading roles sung by Beatrice Niehoff and Victor Braun.

With optimism buoyed by the continuing mini-boom in the Ruhr, the Essen Theatre looks set to continue pulling in the crowds – final proof that the city is more than just coal and steel.

Patricia Hewitt

PROFILE: Television editor

The new view

Mr Klaus Bresser

FROM the big corner windows of Mr Klaus Bresser's office south of Mainz, the world looks a peaceful place. "I sometimes think it's a bit isolated out here," says the editor-in-chief of Zweites Deutsches Fernsehen (ZDF), the second German television channel, as he looks out from the office and production complex on to the rolling fields of the Rhineland-Palatinate state in the centre of western Germany.

Restful though it may be, the view from the eighth floor hardly represents the challenges and responsibilities facing German TV at a time when the excitement and turbulence of the run-up to unity between the two Germanys on October 3 are being replaced by the all too bleak reality of economic chaos and anxiety in the east as its people struggle to catch up with the west.

Mr Bresser, born in Berlin and now in his early 50s, has headed ZDF's news, current affairs, and sports coverage for more than two years. He has introduced a faster flowing news style, with more flexibility, quicker reactions to important news events, and a less deferential reporting approach to German politics. It is a style that was obviously well suited to the rapid and dramatic flow of news from East Germany and the rest of eastern Europe over the past year or so. However, TV now has the tricky job of describing and illuminating the difficult process of bringing together two parts of Germany which have developed very differently.

At the same time, it must avoid over-concentration on inner German affairs, or navel-gazing. "German TV has a huge task to fulfill, bigger than in the history of West Germany," says Mr Bresser.

ZDF was set up in the early 1960s by the states (Länder), which have now grown from 11 to 16 as a result of unification. "Both societies have been separated mentally, not just economically," he says. Thus TV has to act as a force for integration, not only showing the problems but also providing a forum for open discussion and dialogue and helping to develop solutions and understanding. It is, he notes, far harder for the cameras to show the economic problems as they occur on the ground, such as rising unemployment and falling industrial and farm production, than it was to catch the mood on the streets when old systems were crumbling and new freedoms being grasped.

And for all its role in helping the wave of peaceful revolution to pick up speed in eastern Europe, TV cannot convey what life is really like in the west. Many East Germans were able to compare their own drab, limited existences with life in the free, more varied and colourful West. "TV was the only western product which could be freely consumed in East Germany." But it could not prepare people there for the faster, more profit-driven, and occasionally ruthless way of life in the free market. "East Germans have had huge difficulties in coping with daily life over here, with the pace of work and the emphasis on performance and efficiency." ZDF has employed some people from former East German TV, but Mr Bresser is emphatic that people in the east would be horrified if they saw the same faces that used to spout the old Stalinist propaganda from the screens. So it will be young, politically untainted and journalistically fresh talent that ZDF and other channels will be seeking as they extend their reporting and production networks eastwards.

Of course, the former East Germany also has other contributions to make. On the entertainment side, there is a strong cabaret tradition in the east which could certainly help to make German TV less heavyweight and more inclined to amuse as well as to inform. Entertainment is not a strong point on the West German small screen. Peak viewing times are rich in old feature films, sometimes in black and white, about life in the Austrian mountains or harmless frolics in the Bavarian countryside.

However, West German TV has served up some real plums, as with the lengthy, beautifully directed, and very successful (in Germany and abroad) Heimat series about village life, for which the turbulent events of the 20th century served as a rich backdrop.

The real and lasting extent of the influence from the east on German TV can hardly be gauged at present. Clearly, as with the rest of German life, political, economic, or social, it will be forces from what used to be known as West Germany that will predominate. Television in eastern Germany has adapted quickly under the inspiration of the revolution from the streets that led to the toppling of the old regime. But until the east catches up with western living standards, the paymasters and policymakers will be in the west.

Andrew Fisher

THE MEDIA

Weak showing

NOBODY predicted the fall of the Berlin Wall in November 1989. But some were more mistaken than others about future developments in Germany.

Those best in touch were neither the politicians, nor the famous German professors in political science, nor the think-tank analysts nor the journalists, but some writers like Mr Martin Walser, or a parliamentary backbencher from a Black Forest constituency, Mr Bernhard Friedmann.

When he suggested in 1988 that the German question be put on the agenda of meetings between the superpowers, everyone laughed. Chancellor Kohl called Mr Friedmann's proposal "absolute nonsense".

Since November 10, 1989, the German press, like the other "opinion-makers", therefore, has had to come to terms with the new realities. The conservative Springer press had the shortest way to go, and papers like Die Welt and Bild were soon showing more black-red-and-gold than ever.

It must not be forgotten, however, that even the Springer newspapers made their peace with the second German state in August 1989. Only a few weeks before the mass exodus of East Germans through Hungary, the publishing group abandoned a rule which had been practised for decades – writing the initials DDR (German Democratic Republic) in inverted commas as a way of underlining the state's lack of legitimacy. In effect, the Springer press recognised the status quo just as it was starting to end.

Other parts of the press also had their difficulties. On the top floor of papers like the conservative Frankfurter Allgemeine Zeitung (FAZ) or the social-liberal Süddeutsche Zeitung are very often editors born in Berlin or eastern Germany, with a collective memory of pre-war united Germany. Further down the hierarchy however are younger journalists aged between 25 and 45 from the west and south of Germany, rooted in Catholic, anti-Prussian traditions. They have problems coming to terms with the German Protestant North in general. The old German dividing line along the river Main still exists.

The role in the reunification debate of the Hamburg weekly Die Zeit is also worthy of examination. Although the owner, Mr Gerd Bucerius (a former Christian Democrat deputy) and the co-publisher Mr Helmut Schmidt (the former Chancellor) were trying to put the paper on to a more realistic basis, the majority of journalists refused to recognise the new realities until very late in the day.

The performance of the electronic media since last November also appears rather weak. The Westdeutscher Rundfunk, the biggest public sector broadcasting organisation, long preferred to interview Mr Stefan Heym, the east German writer who believes in a modified form of Communism, than to talk to the people of Leipzig.

For too long, the East Germans' cry for unification was not heard. One reason is that the standard of journalism in Germany generally does not reach the intellectual level and independence of Anglo-Saxon journalism. In Bonn in particular journalists are privileged and too dependent on the political parties and their peer groups. Berlin as the real capital of the new Germany would be the place from which to launch a better press.

Jochen Thies

■ The writer is editor of Europa-Archiv, the magazine of the German Society for Foreign Affairs

While reunification dominates the news, art and education issues are are still high on the German agenda of public debate

Berthold Hütten: a man with an English passion

Berthold Hütten: the Gaesdonck school needs more pupils

MR BERTHOLD HUTTEN, the live-wire head of the language department at the Gaesdonck boarding school, near the Dutch border, is a man with a mission.

Mr Hütten, one of the deputy headmasters at the school, presides with boundless energy over what must be one of the best-equipped and most exuberantly-run English language departments on the Continent. He has been trying for 18 months to raise official interest in Germany and Britain for funding a bilateral teachers' working group to boost co-operation between schools in the UK and Germany.

Reflecting linguistic problems and the difficulties of harmonising curricula and different educational systems, pupil exchanges between British and German schools are thin on the ground. Most links between educational establishments in the two countries occur within the framework of town-twinning partnerships.

Mr Hütten, together with a group of 40 high school teachers from Germany and Britain, thinks more needs to be done to put such collaboration on a firmer basis. But in his efforts to win backing from government or EC institutions for a formal teaching steering committee, to meet on a six-monthly basis, Mr Hütten has drawn a blank so far – even though the 1992 programme makes closer educational links vitally important.

The Gaesdonck has plenty to offer. Its oldest buildings dating from a 15th century Augustine monastery, the school is set close to the town of Goch in the Lower Rhine region about 60 miles north-west of Düsseldorf. In previous years pupils needed their passports to fetch footballs kicked over the nearby border; as a result of relaxation of EC frontier rules, the balls can now be recovered from the Netherlands without formalities.

Financed by a Catholic foundation – which in turn is backed by the diocese of Münster – the Gaesdonck (meaning "goose hill") is a unique institution. The school started in 1849 after the Church succeeded in buying back the monastery from the state, into whose hands it passed through nationalisation under Napoleon in 1802. It stopped functioning twice – in 1873, as a result of Bismarck's anti-Catholic legislation under the so-called Kulturkampf and again in 1942, when it was turned into a military hospital.

By the end of the war, the buildings were almost completely destroyed by stray bombs dropped during the RAF's flight-path to the Ruhr. Today the school has 340 boarders aged 11 to 18 years old – all boys – well down from 560 in previous years. With a complement of 30 teachers, the school is now over-staffed – but the pupils cannot complain of lack of attention. The fees are relatively low – DM550 a month for the older boys, DM450 for the younger.

The reduction in numbers is explained by the general fall in the German birth rate, as well as by a drop in popularity of boarding schools. Unlike in Britain, private schools in Germany generally carry less prestige than those run by the state.

There are prayers three times a week and the core of the teaching staff comprises nine nuns.

The school has a particular reputation for foreign language theatre. It has a superbly-equipped theatre with 700 seats, and during the coming winter season it is drawing on the talents of touring groups from three countries: the New Triad Theatre Company from London, playing Macbeth; the American Drama Group (New York – Our Town); and the Theatre Marcadet (Paris – Le Petit Prince).

The Gaesdonck runs its own farm (including a bakery producing 20 sorts of bread) and makes its own sausages. Meals are taken in a variety of baronial dining rooms.

The school boasts a zoo breeding guanakos (the wild form of the domesticated llama), donkeys, goats and various types of fowl, and offers pupils sports ranging from sailing, hockey and tennis to judo, riding and swimming.

The library runs to 30,000 volumes, including a large collection from the Middle Ages. Mr Hütten's pride and joy is the separate English library, set in a generously furnished annexe which looks like a polished drawing room of a stately home, and which has now grown to 4,600 books. The library's stock runs from a 1623 edition of the works of Shakespeare and a 1791 Gibbon's Decline and Fall of the Roman Empire to a copy of British government Documents on Foreign Policy and the writings of Tolkien, Rebecca West and C. S. Lewis.

Most of the books have been acquired by Mr Hütten over 10 years. "I am a good bargainer – I have had a lot of luck," he says. The collection symbolises the Gaesdonck's aspirations as an educational bridge between Britain and Germany. Now all the school needs is a few more British pupils who want an unusual immersion – complete with donkeys and nuns – into the varied ways of German life.

David Marsh

There's business in benevolence

BUSINESS patronage of the arts in Germany is taking on ever-growing importance. Although precise figures are hard to come by, estimates range between DM250m and DM350m a year. Compared with public sector support running at around DM8bn a year, this is just enough to keep one or two opera houses going. But the subject of sponsorship in the arts is very much on the public mind. Hardly a month goes by without some new book or article or conference on the subject.

Motives are always called into question. Although some bigger corporations are trying to move away from the classic image of Maecenas, the patron as a benevolent individual, others see this as part of the public function of the entrepreneur. In 1987 a survey among German companies involved in art patronage found that 74 per cent claimed "social responsibility" as the prime motive for their activities.

This may be true, but there can be no doubt that their public support for the arts is closely tied up with new concepts in advertising, product promotion and corporate identity. It comes as no surprise to learn, in a European Business School study of 1988, that patronage money is drawn largely from the advertising and PR budgets.

However, advertising consultants have begun to call for a more cautious approach to art patronage. Companies are having to learn that, unlike in sports promotions, short-term effects materialise rarely, if ever.

Insensitive handling of arts patronage can actually reverberate against the sponsor. Such activities need careful planning and should be integrated into the long-term strategy of a company, urges a leading advertising magazine in its latest edition. Many people are beginning to realise that sponsoring is just another form of advertising.

Private and company-led involvement in the arts in Germany has taken on a significance out of proportion to the limited funds being invested. Ms Karla Fohrbeck, an expert in this field, has shown how a multiplicity of initiatives, often backed by individuals with an intensely personal interest, creates a cultural scene of rich diversity (Renaissance der Mäzene?, DuMont 1990). Funds can be employed, she says, more flexibly than those of the public purse, and personal relationships can blossom.

She also notes how the art world has learnt to turn the self-interest of sponsors to its own advantage, by allowing them ever-greater benefits in return for substantial grants.

Perhaps the oldest form of business patronage of the arts in Germany is to provide a platform for such activities inside the company. There have been much acclaimed experiments such as artists' workshops on the premises, often with the active participation of employees. Others go further and turn a whole factory into a sculpture park or mural display.

The most provocative case is, of all places, the meat processing plant at Herten, originally founded by Karl Ludwig Schweisfurth and now absorbed – art, sausages and all – into the Nestlé concern. Large companies such as Bayer, BASF and Siemens have long gone for the support of more traditional arts programmes for their employees. In some regions this has grown into a significant cultural factor.

Of the big car producers, many have a prominent "cultural" profile. The arts are used as a marketing tool which can turn local and regional prestige into national and international acclaim. In full-page advertisements, BMW, for example, manages to tie the word "culture" (which in German signifies both artistic activity and civilised behaviour) not only to the arts festivals organised at its Bavarian assembly plants, but also to the new architecture of its headquarters in Munich and to the stylish performance of its cars.

Daimler-Benz in Stuttgart has now spread its wings to aerospace and other areas of high technology. It boasts an "integrated concept of cultural patronage" on all areas of the arts.

The banks, too, are discovering the potentials of art patronage in a big way. The Deutsche Bank is now widely known for its comprehensive collection of German contemporary paintings even though access to them at the bank's two tower blocks in Frankfurt is denied to all but employees and guests.

A number of companies have discovered the awards system as a relatively inexpensive means to tie the company name to a cultural image and earn press coverage. Another interesting variant of arts patronage is by way of company foundations, which use the interest from a one-off capital investment for cultural purposes.

German-based companies of international significance can be expected to play an increasing role in arts sponsorship abroad. However, given foreign worries about possible German dominance in Europe, prospective sponsors will have to tread carefully.

Günter Kowa

David Goodhart and **Phillip Halliday** look at predictions about supremacy in sport

Marriage built on promises

THE united Germany may shrink from superpower status in politics but in sport it will have no such inhibition. In athletics commentators predict that no country, except the US, will be able to stay in touch with Germany's medal-winning potential.

In football the former West Germany is world champion and the addition of east Germany can hardly weaken it. In rowing, on the other hand, unification raises doubts.

However, in athletics, the once mighty East German athletes, who towered over their West German colleagues in most events, have to learn to adapt to a new system which is bound to be disruptive in the short term.

The east German athletes, a privileged élite in the old regime, are training with their west German counterparts but some of them are finding it difficult to fit into the system.

Many have been separated from their old coaches, deemed too political to be taken on by the all-German athletics association, and all but the very best, such as the sprinter Katrin Krabbe, are finding it tough to get sponsors. The Bonn government is helping out with DM100m.

Even in the longer term the break-up of the extraordinary world of East German athletics, which elevated a country of 17m people to the level of the US and the Soviet Union, may mean fewer superstars. So the all-German Olympic team of 1992 may turn-out to be rather less than the sum of its two parts in 1988.

In football, East Germany slumbered in the 1980s after two famous victories against West Germany and in the Olympics in the 1970s. East German league football has collapsed this season, many of the best players have been bought by west German clubs and the crowds are down by 50 per cent. Only two east German sides are being allowed into west Germany's First Division and six into the Second Division.

The future for the combined rowing teams is unclear. Rowing is one of the main sports in Germany, where cricket and rugby are not played.

The separate countries have had outstanding records since the 1960s. East Germany, for example, won seven titles out of 22 events in last year's world championships. But their successes were achieved with different systems and sporting philosophies and it will be a difficult task to combine the rowing infrastructures.

The east German set-up was state controlled through a network of some 200 professional coaches. The recruitment of young athletes, so important to achieve international success, was controlled by the state.

West Germany, on the other hand, relied on its tradition of powerful clubs, likened to private navies, with their business backing. There was no monolithic organisation and the top coaches, often unpaid, tended to congregate around the big clubs. There was very little infrastructure for the recruitment of juniors.

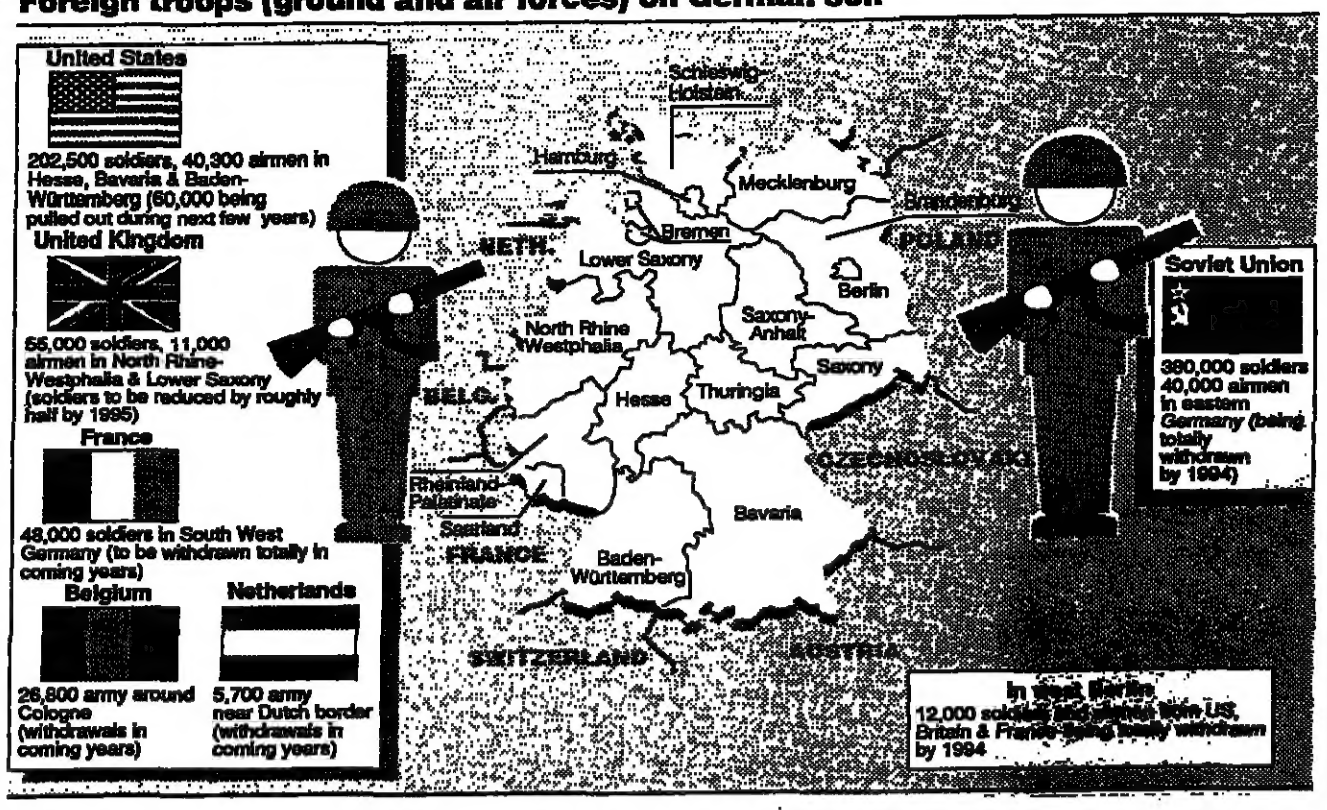
In both systems a common theme was the high drive for achievement, but this is no basis for a successful marriage. It is feared that youngsters in the east will turn to other things. More worrying, East German coaches are trying to find work in other countries as the infrastructure collapses through lack of (state) funding.

Katrin Krabbe: one of the few to find sponsorship

The troop withdrawals will provide economic shocks for many German towns

Peace dividends can be expensive

Foreign troops (ground and air forces) on German soil



AFTER 45 years of preparation and sometimes noisy sabre-rattling in central Europe, the troops are heading home. While the generals in Nato and the Warsaw Pact prepared for the worst, the whole framework around them changed for the better.

The US has about 250,000 of the total of 400,000 allied troops still stationed in Germany. So far, some 150,000 allied troops are to be pulled out of western Germany, with the US sending 30,000 soldiers and 10,000 airmen home in the next year. Some 60,000 US troops are to leave by 1997.

The pull-out, says Mr Dick Cheney, US defence secretary, is the response "to changing security requirements and declining defence budgets." And with the way things look in the US Congress, the latter could shrink even more than Mr Cheney planned.

The Soviet Union also plans to get out of east Germany – a move encouraged by DM15bn of West German aid, including a DM3bn credit. Back on the front line of what was once the Cold War, Soviet troops are said to be offering their rifles for sale to east German civilians in exchange for D-Marks.

The military pull-out will also result in economic shocks for many towns in Germany. An estimated DM12bn (£4bn) pours into the west German economy each year from US military spending for consumption, rents and services. That provides work directly and indirectly for almost 170,000 Germans, says a US army spokesman.

Peacetime armies tend to bring along their wives, children and pets. Used car lots in Kaiserslautern, known as "K-Town" to generations of GIs, display big signs reading "Easy Financing" and "Low Down Payment," but German language signs may be in the future.

The smaller towns, such as Bad Tolz in southern Bavaria, will suffer most once the local barracks close.

The shops specialising in cowboy boots, jean jackets and ornate beer mugs might want to start thinking about a new clientele.

If the American troop pull-out will hurt some, most German politicians see it as an opportunity to acquire new land for housing and parks in the heart of some cities. But the Hesse state government is still pressing Chancellor Helmut Kohl to help get the US Army's V Corps headquarters out of the heart of Frankfurt.

Some 150,000 allied troops are to be pulled out of western Germany

The US command listed 95 places to be closed in Germany, with another 14 to be cut back.

That is the lion's share of the total of 151 US bases to be closed or reduced in 10 countries worldwide.

While Mr Max Streibl, Bavaria's minister-president, welcomed most of the closings – one-third of all the US troops leaving are in his southernmost state – he suggested that "considering the present political scene, this pull-out list can't be the last word from Washington."

While the plans call for a complete withdrawal from Munich, closing the US army barracks and the popular Armed Forces Network station there, other locations have tried to preserve something for those US troops and officers not going home immediately.

Several barracks in both Augsburg and Fürth are to close, but the US decided to keep the golf courses and clubhouses in each of the Bavarian cities. Obviously, some military planners see no sense in making Germany a hardship tour.

The smaller towns will suffer most once the local barracks close

There is a Catch-22 to all these plans. The troop pull-outs hinge on the successful conclusion of an agreement on conventional forces in Europe by the end of this year.

But the Warsaw Pact is still haggling among its suddenly more democratic members. The Nato-Warsaw Pact agreement lets each side keep 20,000 tanks in Europe. As of mid-October, the other five Warsaw Pact members strongly oppose letting the Soviets keep 13,300 of their pact's tanks. "The Soviet Union will still have to reduce this level," suggests a Czechoslovak disarmament official.

With military planners fighting among themselves about how many weapons to cut and which barracks to close, the times have changed indeed.

Dennis Philipps

POLITICS

Divided over unity

Politics in German Lander

Land	Largest party last state election	Seats in Bundesrat (upper house)
Baden-Würtemberg	CDU	7
Bavaria	CSU	7
Berlin	SPD	5
Brandenburg	SPD	4
Bremen	SPD	3
Hamburg	SPD	3
Hesse	CDU	6
N.Rhine-Westphalia	SPD	8
Lower Saxony	SPD	7
Mecklenburg	CDU	4
Rhineland-Palatinate	CDU	5
Saar	SPD	3
Saxony	CDU	5
Saxony-Anhalt	CDU	4
Schleswig-Holstein	SPD	4
Thuringia	CDU	4

THE YEAR of unity has coincided with an election year in Germany. That has made consensus between the main parties a rarity in spite of the fact that differences over unity have been of tone rather than substance.

But with Chancellor Helmut Kohl's centre-right coalition poised to win a crushing victory in the December 2 all-German election, an all-party consensus will soon become superfluous. It is only the struggling Social Democrats who talk about the need for a "grand coalition" of the main parties to deal with the unique challenge of integrating the former East Germany.

That the centre-right coalition of Christian Democrats/Christian Social Union and Free Democrats would reap a "unity dividend" seemed self-evident to some people when the unity process began in earnest.

The argument was simple: government's tend to benefit from momentous events as long as they manage them competently, and the conservative parties of the centre-right government would find the new national issue easier to handle than the Social Democratic opposition. So it has turned out, but only after a long delayed reaction. At the turn of the year, when it was *still not clear how quickly* unity would come, the governing coalition continued to languish in the polls and the possibility of a red-green coalition in Bonn remained real. The SPD continued to win elections in West Germany and seemed poised to emerge as the strongest party in the newly democratic East Germany.

At that time Chancellor Kohl's refusal to call an-all party "round-table" to guide the unity process seemed unstatesman-like. But the gamble has paid off, thanks to his almost faultless, albeit sometimes brutal, management of unity. In November, he set the first signpost to unity with his *10-point plan, which at the* time put a few Allied noses out of joint, but now looks rather conservative, envisaging unity in the distant future.

According to one close adviser it was his visit to East Germany towards the end of December that persuaded him the country had given up the will to live as an independent entity and that serious breakdown could ensue – largely thanks to the continuing exodus of east German citizens – unless full unity was pushed through quickly.

In his boldest move, he decided, against the advice of most economic experts, to press for early monetary and economic union in February.

The Chancellor's famous populist instincts, unlike those of his challenger Mr Oskar Lafontaine, seemed to be working in East Germany. Critics complained that he was painting a gloomy picture of collapse and was making promises of wealth and security to east Germans that could not be quickly fulfilled.

The critics were often right, but in those early months of 1990 he – and the D-Mark – had become the symbol of hope for East Germany. He grasped the importance of keeping attention focused on some new date in the immediate future – free elections, monetary union, full union, all-German elections – and he empathised with the East German yearning to become first-class rather than second-class Germans.

Chancellor Kohl was rewarded in East Germany's free elections in March when his Christian Democrats emerged as the largest party and the *SPD* scored *only* 20 per cent. Meanwhile, West and East German politics were becoming increasingly polarised.

The SPD were still ahead of the CDU/CSU in the West German polls and their criticism of the government's rush to unity was generally well received. In West Germany many people seemed more concerned with establishing an eco-friendly tax system, a large SPD concern, than paying to bail out East Germany.

Whether they intended to or not the SPD appealed to an "I'm alright Jack" feeling in West Germany which allowed Chancellor Kohl to claim the moral high-ground. In spite of a healthy West German economy the SPD's more qualified enthusiasm for unity went on *winning* them votes. They held the states of Saarland and North Rhine-Westphalia and won Lower Saxony, giving them control of the Bundesrat, the upper house of parliament, in May.

Thanks in part to tactical errors by Mr Lafontaine, who was too negative about unity long after most West Germans had accepted it as inevitable, the SPD began slipping in the opinion polls in June. They are now only three or four points behind the CDU/CSU in west Germany but combined with their continuing weakness in east Germany there seems no way they can catch up. The post-nationalist, pro-disarmament, Red-Green politics of the SPD younger generation, personified by Mr Lafontaine, has been eclipsed by unity, and could remain so for up to 10 years according to some analysts.

The party has had no clear strategy on unity that differentiates it from the Chancellor beyond calling for higher taxes and criticising the failure to establish the proper groundrules for economic reconstruction in east Germany.

The latter might have been a vote winner but for the fact that Mr Lafontaine insists that early monetary union was a mistake – which ignores the mass emigration from east Germany which had to be stemmed. Few people in Germany blame the Bonn government for the economic mess in east Germany. The *CDU*'s image as the party of economic competence and national pride is likely to keep it supreme in the five east German states for a generation.

The inheritance of the political machine and personnel of a "block" party from the old regime has helped the CDU in east *Germany* and the SPD's attempt to paint it as a fellow-traveller has not worked. But it remains a moot point how far the east German wings of the main parties will help to shift their character. East Germany's short-lived democratic political culture was rather homogenous and based on a single issue. It is widely assumed that the absorption of the protestant east-CDU will encourage the liberal wing of the German CDU.

The SPD may be pulled the other way. The east-SPD has been *so* keen to distinguish itself from the PDS, the new democratic socialist version of the old East German Communist *Party, that its brand of* social democracy is to the right of the west German party.

The Greens, whose west German wing has been tilting away from last year's new pragmatism, may be saved from oblivion by their association with the east German citizens groups that led the revolution. The liberal free democrats have benefitted from their merger with an east German block party.

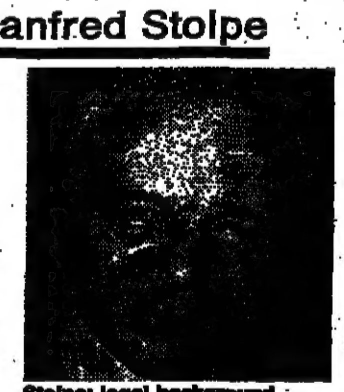
The Bavarian Christian Social Union was harmed by unification. It allied with the insignificant German Social Union and its power is bound to wane in a larger Germany unless it emerges from its Bavarian lair and become an all-German party. There are few signs of that.

Other losers are the far-right Republicans who gave the world a fright by winning 7 per cent of the vote in the West Berlin election of January 1989. For most of this year they have been scoring less than 3 per cent in the polls, *swept* away by the excitements of unity, but the xenophobic attitudes of many former East Germans could provide fertile ground.

David Goodhart

PROFILE: Manfred Stolpe

Bipartisan approach


Stolpe: legal background

NEWLY-ELECTED prime minister of Brandenburg, Mr *Manfred Stolpe heads a state* which promises to become one of the most prosperous of the five new east German Länder.

Brandenburg, the largest east German state in the area, has the advantage of surrounding Berlin. In spite of the general difficulties of economic recovery Brandenburg can be expected to benefit more quickly from any upturn, than more remote areas.

As the lone Social Democrat among the five new Christian Democratic Länder chiefs, Mr Stolpe will need his powers of persuasion to obtain economic aid for his *Länd* from the ruling Christian Democrats in Bonn. But even before the election, *Mr Stolpe's bipartisan* approach threw his CDU rival in Brandenburg off-balance. He noted after a meeting with Chancellor Kohl that the German leader understood the problems of the region and the need for extraordinary measures to prevent mass unemployment. This apparent iden*tity of interests may well have* saved Mr Stolpe from suffering the fate of the SPD candidates in the other Länder.

Mr Stolpe, 54, entered the political ring last spring when he joined the SPD. But his political acumen stems from his legal background and service as the senior Protestant Church layman responsible for relations with the former communist regime. He has been consistorial president of the Berlin-Brandenburg Church since 1982 and, in latter years, contributed to the growing human rights movement which worked under church protection.

He became a leading non-communist expert on the ruling politburo, frequently meeting Mr Erich Honecker on church matters. Mr Stolpe disclosed recently that many senior former party officials had turned to the church for "spiritual" help after being *ostracised by the population.* An analysis of the Länder election results showed that more than 10 per cent of those who previously voted for the PDS, the successor to the Communist Party, cast their ballots for Mr Stolpe.

His ties as a student with the Protestant Church's academy were grounds for the party to refuse him the right to a job. He took the church's advice and did advanced legal studies in West Berlin, where he gained practical experience. When the Berlin Wall was built in August 1961, Mr Stolpe returned to East Berlin, a comment on the loyalties he felt to the church and the people of East Germany. The church put him in charge of its organisational work in the entire country.

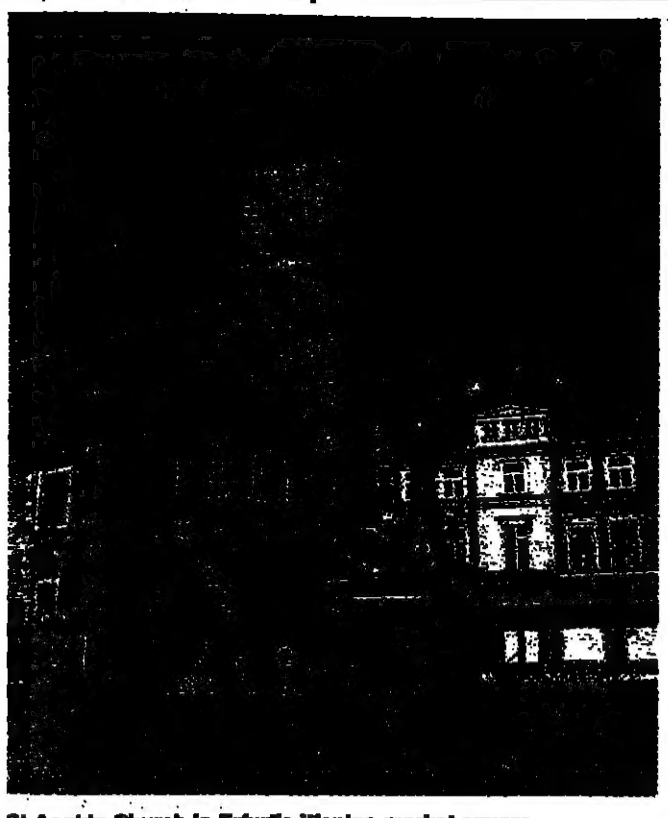
The high-level contacts he had with the party as consistorial president of the Berlin-Brandenburg Church led to charges earlier this year that he had acted in collusion with the Communist leadership. He replied succinctly that "everyone had to deal with the warden who held the keys to the prison."

In a tribute to his humanitarian work behind the scenes *in East Germany,* Mr Stolpe was invited to hold the commemorative address at a ceremony marking the June 17 1953 East German uprising. Before an audience which included Chancellor Kohl and Mr Lothar de Maiziere, the East German prime minister, Mr Stolpe noted that October 9, 1989 – the day 100,000 people demonstrated in the streets of Leipzig – had succeeded where 1953 had failed. But while praising unity he warned against a disruption of social peace.

Travelling through Brandenburg on the last leg of his election campaign, Mr Stolpe noted that the region had been "run into the ground by the Nazis and the Communists." In Kyritz, a small town north-west of Berlin, he asked employees of a local factory how many of its workers with trade skills had left the plant to set themselves up as private tradesmen. The reply was none, a reflection of the widespread passivity of east Germany.

Mr Stolpe noted critically that companies from Japan and Italy had shown more interest in investing in Brandenburg than west German companies. The latter were waiting until east German companies had collapsed and could be picked up cheaply, he said, echoing a frequent charge. He appealed to foreign investors to take a close look at Brandenburg, on the doorstep of Berlin.

Leslie Colitt



St Aegidu Church in Erfurt's Wenige market square

Günter Kowa considers Erfurt's renaissance

Historic town reborn

ERFURT is one of the historic towns in eastern Germany which can be fairly certain of a great rediscovery and renaissance. The question is – how long will it take?

It seems hardly imaginable that the people of Erfurt will be in a mood to celebrate in the next couple of years. The planned festivities in 1992 for the 1200th anniversary of the city's foundation may well come too soon. Forty years of communism and isolation have left their depressing mark on the houses, the shops and the faces of the people who still seem barely able to cope with the main problem: the sudden arrival of western lifestyles.

Whatever the short term problems, in the long term Erfurt has great chances. Its visual appeal stems from the Middle Ages, which contributed the soaring lines of the gothic cathedral perched high on a hill, flanked and contrasted by the plainer shapes of the romanesque city church.

The office of the mayor, Mr Manfred Ruge, elected this summer, is besieged by prospective investors. He points to the possible recovery of Thuringia's traditional craft, textile and ceramics industries. Erfurt would offer the ideal market and local commerce could flourish. "For every house in the town centre we have two or three people offering to buy, open shops or restaurants. The biggest obstacle, which we will have to overcome soon, is the unresolved problem of property ownership".

The mayor does his best to spread a message of optimism. He knows that his city may have a better starting position than many others in east Germany. But the coffers are empty, the task is enormous, most people worry about their jobs and their pensions. Erfurt's rise from the ashes can only occur in the wider framework of the economic recovery of east Germany, for which the true bill has yet to be faced.

Erfurt's celebrated main thoroughfare, the *Anger*, winds its way in broad sweeps past wide open squares through the close-knit pattern of medieval streets. It is a reminder of the past importance of Erfurt as a trading centre where several major European routes merged. One of these passed across a bridge over the River Gera, the *Krämerbrücke* – the only bridge north of the Alps to preserve unbroken rows of shopfronted houses on both sides.

The people of Erfurt had a share in the revolutionary events that led to the collapse of the old regime. Mr Ruge commands the respect of the whole political spectrum now represented in the town parliament.

He is a member of the Christian Democrats, but in August last year, at great personal risk, he convened clandestine opposition meetings. Erfurt also saw the first anti-Stasi riots when a crowd stormed the headquarters of the secret police, "well aware that someone might pull out a gun and shoot", says the newly-appointed city hall press officer, who was among the rebels.

Older citizens still remember the day in 1970 when Mr Willy Brandt, during his meeting with Mr Willi Stoph, the East German prime minister, appeared at a front balcony of the Hotel Erfurter Hof. Outside on the square a silent throng had gathered and erupted into a spontaneous cheer, despite heavy police vigilance.

Mr Brandt tried the same gesture again during February's East German election campaign but was easily upstaged by Chancellor Kohl giving a speech nearby.

Even before Erfurt's 1200 year celebrations, another of its long lost legacies should be re-established and on its way to success: the university, founded 600 years ago and closed since 1812. Unlike most other eastern German institutions of higher learning, it is untouched by the burden of 40 years of party indoctrination and will instead link up to an almost mythical past, for Erfurt University was one of the centres of Renaissance humanism in Germany.

A painting in the staircase of the town hall shows the fabled incident in the 16th century when Dr Faustus is said to have lectured students on Greek mythology and to have conjured up the spectre of the homeric giant Cyclops in front of his petrified audience.

Today, Erfurt's architectural heritage lies semi-derelict, looking shabby and spent, apart from a few alibi objects which were given face-lifts to demonstrate an otherwise non-existent reverence of the communist state for the past. The director at the local Historic Buildings Department pulls out a yellowed typescript: "This list of about 300 historic buildings was given the official stamp of approval; meanwhile we had to keep our mouths shut about a more realistic earlier document which numbered over 1,200 objects."

To save Renaissance facades, timber-framed structures, picturesque courtyards and unbroken rows of gabled houses from the collapse which seems imminent, building conservationists enter a race against time. Decades of neglect, caused not least uneconomic rents, cannot be reversed overnight. What many fear is the new threat of western-style speculation. Erfurt has already had a foretaste, when officials discovered too late that a developer had propped up the facade of a timber-framed house while demolishing everything behind.

Not that Erfurt's architectural heritage did not attract generous financial and material support from the west. The West German states of Hesse and Rhineland-Palatinate, the City of Mainz (whose archbishop governed Erfurt in the middle ages) and a number of private institutions and architects have opened offices, started to train local craftsmen and building contractors and are helping to rescue some of the most badly deteriorated buildings by fixing roofs, windows and doors.

But that is a far cry from the concerted intervention which will be necessary to restore Erfurt to its former glory. Much attention has focused on the St Andrew's quarter, an appealing patchwork of modest 19th century craftsmen's dwellings long earmarked for road clearance. Lack of funds led to a piecemeal destruction, and it will now require a sensitive and costly combination of restoration and reconstruction.

Hamburg has been given an extra lift, writes Andrew Fisher

Port city eyes the future

IT SEEMS hard to imagine now that Germany is united, but Hamburg, one of the country's most prosperous and elegant cities, used to be a mere 30 miles from the old border with East Germany. For 40 years, the port city was cut off from what is now the new eastern state of Mecklenburg; its traditional hinterland was hidden behind the Iron Curtain.

With 1.6m people, Hamburg is Germany's second biggest city (after Berlin) and ranks with Munich as one of the most attractive. Politicians and businessmen have high hopes that events in Europe will give Hamburg an extra lift. "Hamburg has been put back in the centre of northern Europe", says Mr Hans Jakob Kruse, chief executive of the Hapag-Lloyd shipping and travel company. After several years in which the city has swept away much of its old heavy industry and striven to attract new technology and service companies in the 1980s, the opening of the border to the east could hardly have come at a more opportune time.

Not that it suffered through being so close to one of eastern Europe's most rigidly communist states. With its lakes, some impressive shopping centres, and residential areas which reek of wealth, Hamburg is an extremely pleasant place in which to live, though it also contains the garish Reeperbahn red light district. The city has a thriving port, is home to a host of banks and insurance companies, and has developed as an advertising and media centre, with best-selling weeklies like Der Spiegel and Stern magazines, and the heavyweight Die Zeit, published in the city.

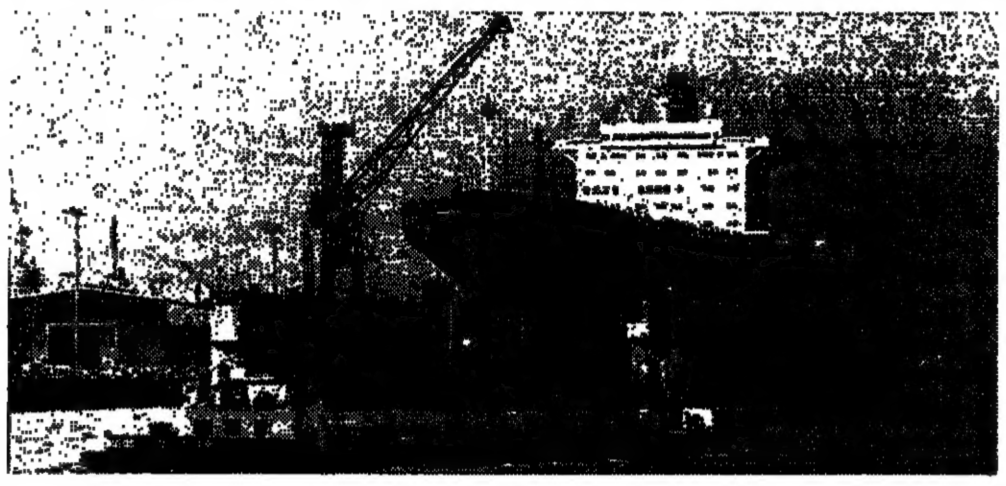
All of this makes Hamburg a promoter's delight, with clichés in abundance. Media Metropolis, Gateway to the World, Turntable of Europe – the city has adopted all of these. Now that the barriers are down and eastern European countries are struggling to adapt to the free market, some of them roll more easily off the tongue. "We called ourselves the Gateway to eastern Europe", adds Mr Kruse. "Now, we really are."

Of course, Hamburg is not the only place which stands to benefit from unification. Berlin could act as a magnet for financial, media, and service activities, drawing some of these away from Hamburg. "Some new investments in the financial sector could go to Berlin", reckons Mr Ulrich Stipke, chief economist of Hamburg's Vereins- und Westbank. "Berlin could take on the function of a regional financial centre for north Germany."

That, however, would still leave Hamburg with plenty of opportunities. "The city will get back its old function as a bridge to overseas markets", says Mr Stipke. Many foreign companies are already in Hamburg because of its port facilities and trading services, enabling them to import and assemble goods for distribution in Europe. Moreover, the port will benefit from the loss of Rostock's status as the main East German port.

Although Hamburg still has a near 10 per cent unemployment rate, it has largely shrugged off its former self-image as a problem city, believes Mr Helmut Körner, head of the economic policy division of Hamburg's economic and transport department. The changes in eastern Europe come as "a real gust from behind" to liven up the economy.

As the jobless level shows, Hamburg still has its difficulties. But these have been sharply reduced by its move from heavy dependence on shipbuilding, oil refining, and food processing to newer sectors like electronics, aerospace, and communications. Hamburg will certainly need a big improvement in transport links, within the city and to the east, especially Berlin. Its airport is already being extended. The opening of the border with the east is likely to speed up some of Hamburg's infrastructural projects, says Mr Clamor Mittelbach, a director of the city's economic department. "There is now pressure for faster action."



Alan Harper

Hamburg will benefit from the loss of Rostock's status as the main East German port

In the last few years, Hamburg's economy has grown at a similar rate to the rest of West Germany. Now, it could expand faster than the rest of the country, although economists are divided as to the strength of the impulses it will derive from the opening up of the east. Certainly, many Hamburg companies and traders have benefitted from the new demand from long deprived consumers across the old border. Food and drink firms have done especially well.

"The markets in eastern Europe need everything – infrastructure, capital goods, consumer goods industries", says Mr Claus Müller, general manager of Hamburg's economic promotion office. But for the international concerns in a position to provide these, he asserts that Hamburg is a better base than, say Leningrad or Moscow. "What we are saying to companies in Japan, the US, France, Taiwan and elsewhere is 'come to Hamburg and build up management bases to prepare for the next 10 years in eastern Europe'." At present, he estimates, there is nearly DM20bn worth of office projects under construction or in the planning stage in the city. Some are strikingly modern, with British, American and other investors heavily involved. Around 350 non-German companies have set up in the last four years in Hamburg, where direct foreign investment totals DM15bn. The proportion of service activities in the city's economy exceeds 70 per cent, far higher than the national average.

But while prospects look rosy, there could be a darker side. No-one knows how long it will take for the east German economy to recover. A heavy outflow of discontented citizens from the east could swamp Hamburg. "The economy of east Germany has to be made to work, or the mixture will become explosive", says Mr Eckart van Hooven, a director of Deutsche Bank. If the costly effort is successful, he foresees Hamburg as the start of a Baltic region, stretching through Helsinki to Leningrad.